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Banks: Skating On Thin Ice

THE EDITORS

U.S.-Cuban Policy Debate

JAMES PETRAS

Class and Class Struggle in Africa

IMMANUEL WALLERSTEIN

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CONTENTS | VOLUME 26 NUMBER 9 FEBRUARY 1975

REVIEW OF THE MONTH: Banks—Skating on Thin Ice
by The Editors 1
THE U.S.-CUBAN POLICY DEBATE by James Petras 22
CLASS AND CLASS CONFLICT IN AFRICA by Immanuel Wallerstein 34
BOOKS: Social Mobility in the U.S. Working Class by Edward Greer 51
A New Critique of Marx's Economics by William J. Baumol 57

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NOTES FROM THE EDITORS

This month's Review of the Month analyzing the precarious condition of the U.S. (and other capitalist countries') banking system may be rather difficult going for some readers. Even where this is so, we hope you will make the effort needed to understand the main threads of the argument. Even as we write these lines, the morning newspaper arrives with the announcement that the Security National Bank, the nation's 55th largest, operating on Long Island, has been taken over by the Chemical Bank of New York, itself the seventh largest. The alternative, it is clearly implied, would have been the failure of Security National with unpredictable repercussions throughout the financial community. This is not the first nor will it be the last such episode. It would be unfortunate, however, if our analysis were interpreted as an explanation of past bank failures or a forecast of a future apocalypse. Much more important is a more thorough understanding by radicals of the contradictions and tensions of the latest wave of expansion of U.S. capitalism. Such understanding can be an educational tool and can alert us to the maneuvers capitalists will be into to save their necks. And for this some knowledge of the recent patterns of banking operations is very much needed. Unfortunately the whole subject is one which nonexperts, including many with formal training in economics, tend to shy away from as being too difficult or technical; and even the available textbooks—at least the ones we have looked at—seem to be less than fully aware of the rapid and

(*Continued on inside back cover*)

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BANKS: SKATING ON THIN ICE

> By means of the banking system the distribution of capital as a special business, a social function, is taken out of the hands of the private capitalists and usurers. But at the same time, banking and credit thus become the most effective means of driving capitalist production beyond its own limits and one of the most effective vehicles of crises and swindle.
> —Marx, *Capital,* vol. 3

The specter haunting today's capitalist world is the possible collapse of its financial institutions and an associated world economic crisis. The miasma of fear is hardly surprising in the light of the coincidence in many capitalist countries of seemingly uncontrollable inflation, declining production, and instability in financial markets. The banking and credit community is showing increasing signs of weakness. Thus, in the span of one year the United States witnessed the two largest bank failures in its history (U.S. National Bank in San Diego and Franklin National Bank in New York). In addition, according to a report in the *Wall Street Journal* of December 18, 1974, more than a dozen European banks reported big losses or failed in 1974.

The state of mind of the ruling classes of the leading capitalist countries was well illustrated in an article in *Le Monde* (October 22, 1974), Europe's most prestigious newspaper,

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entitled "The Bankers of New York Begin to Feel the Wind of Panic." According to the paper's special correspondent in New York, he was told by a well-known American banker:

> "It is not impossible that the monetary authorities will be led in the near future to make dramatic decisions, such for example as freezing certain long-term deposits in the banks (deposits established against the issuance of CDs, i.e., certificates of deposit for which there is a very active market in the United States). It is not even possible to exclude the possibility of a panic which would drive depositors to withdraw their funds."
>
> These somber prognostications, made during a luncheon attended by some ten people, raised no objections from the other guests, whose analyses in other respects however were quite different from those of our interlocutor, a man with world-wide experience, not confined only to the United States.

Superficial apologists are inclined to gloss over these warning signals by dwelling solely on the special and, by implication, unique errors of the banks that collapsed, thereby ignoring the fact that these so-called errors are merely distorted reflections of more basic difficulties besetting the money markets. The more responsible financial leaders of the capitalist class tend to speak more frankly. For example, Robert V. Roosa, a partner in Brown Brothers Harriman and former Undersecretary of the Treasury, observed last August, according to a *Washington Post* dispatch:

> "There has been a loss of confidence in the [financial] machinery most of us took for granted. There is a fear, a kind of foreboding." It is "not too much," Roosa added, to say that these concerns are similar to the kind that prevailed in the 1930s. (Published in the *Boston Globe,* August 5, 1974.)

And the chairman of the Federal Reserve Board, Arthur F. Burns, in a major address to the latest convention of the American Bankers Association (October 21, 1974) also went back to the Great Depression as a point of comparison for today's critical conditions. While he did not specifically identify the decade of the 1930s, he could not have meant anything else by his opening sentence: "This year, for the first time in decades, questions have been raised about the strength of the nation's, and indeed the world's, banking system." Rather than sweep this notion under the rug, as one might expect from

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a conservative government official charged with the responsibility to sustain the public confidence and faith on which banks rely to stay in business, Burns went on to spell out in considerable detail why such fears are justified, tracing the problems to the fact that the "goals of profitability and growth have been receiving more and more attention [by bank managements]." He did, of course, utter the necessary endorsement of faith in the banks, but made it clear that it does not rest on the liquidity and stability of the banks themselves. Instead, he pointed out that "for the first time since the Great Depression, the availability of liquidity from the central bank has become . . . an essential ingredient in maintaining confidence in the commercial banking system. . . . Faith in our banks . . . now rests unduly on the fact that troubled banks can turn to a governmental lender of last resort." (Full text of Burns's speech in *The American Banker*, October 23, 1974.)

Why is it that matters have been permitted to reach such a state—where banks can't stand on their own feet and must hopefully rely on the government to prevent collapse? Why, indeed, when there are long-established laws and regulatory bodies—notably, the Federal Reserve Board itself—designed to prevent precisely the dangerous developments analyzed coldly and competently by Burns in the aforementioned speech? Surely, the reason can't be ignorance. The relevant data about the operations of the large commercial banks are available to the Federal Reserve Board, and are publicly distributed by the Board itself, from week to week. Moreover, the important changes, showing increasing sources of instability, are not new, but, as we shall show below, have been developing since the early 1960s and accelerating since the mid-1960s.

The answers to these questions are not to be found in ignorance, absence of wisdom, or lack of will power. What has to be understood is that the ruling class and government officials could hardly have prevented the present situation from developing no matter how much they may have wanted to. The overextension of debt and the overreach of the banks was exactly what was needed to protect the capitalist system and its profits; to overcome, at least temporarily, its contradictions; and to support the imperialist expansion and wars of the United States.

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Those who now complain and tremble over excesses are the very same people who helped bring them about, or at the least did nothing to forestall them, for fear of bringing down the whole financial network. This should become clearer as we examine some of the key facts.

Before we get into the workings of the banking system in these years of inflation and credit expansion, we should understand that there are two sides to the debt explosion: (1) capitalists borrow as much as possible not only from necessity but, more importantly, as a way to increase their individual profit rates, and (2) banks and other institutions aggressively increase their lending as a means of maximizing their own profits. The first point can easily be seen with a simple arithmetical illustration.

Investment—First Stage	
Let us assume that a capitalist has invested in a manufacturing process	$ 1,000
Profit	
Assume that he makes a gross profit of 20% on this investment	$ 200
Assume further that he pays 50% of profits in taxes	$ −100
He then makes a net profit of 10% on his investment	$ 100
Investment—Second Stage	
The capitalist decides to double his capacity, but, instead of plowing back his profits, he borrows another $1,000 by issuing bonds. The capital in his business then consists of	
Stock investment	$ 1,000
Bonds	$ 1,000
Total capital	$ 2,000
Profit	
Gross profit (20%) on total capital	$ 400
Assume bondholders are paid 6% interest on their $1,000 of bonds	$ −60
The capitalist then has, after interest payments	$ 340
Deduct the 50% he pays in taxes	$ −170
The capitalist now gets a profit rate of 17% on his original $1,000 invested	$ 170

This arithmetic of profits (in our simplified example, a

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potential increase in the profit rate from 10 to 17 percent) is what lies behind a good deal of the vast expansion of long-term debt shown in Table 1.

TABLE 1

Investment in All U.S. Corporations

Year	*Long-term debt bonds and mortgages*	*Direct investment by owners of the corporation: stocks*	*Long-term debt as a percent of stock investment*
	Billions of dollars		
1940	$ 49	$ 89	55.1%
1950	66	94	70.2
1955	98	113	86.7
1960	154	140	110.0
1965	210	161	130.4
1970	363	201	180.6

Source: U.S. Bureau of the Census, *Statistical Abstract of the United States: 1973.* Washington, D.C., p. 479.

As can clearly be seen from Table 1, the rapid accumulation of corporate capital since the end of the Great Depression involved both equity investment and debt, but the growth in the use of bonds and mortgages far outpaced that of stocks. Stock investment (equity capital) increased $112 billion (from $89 in 1940 to $201 billion in 1970), while debt capital (bonds and mortgages) grew by $314 billion (from $49 in 1940 to $363 billion in 1970). This shift to much greater use of debt capital has two origins: (1) the drive to increase profit rates, as explained in the foregoing arithmetical example; and (2) the constant pressure to increase the mass of profits, even though, as in Marx's words cited at the outset, this means "driving capitalist production beyond its own limits," and means relying on debt because of the insufficiency of funds capitalists are able to generate internally or through flotation of new stock issues to finance expansion. Note that we are now discussing all corporations (financial and nonfinancial); the impulse to rely on borrowed money for investment capital extends over the entire spectrum of capitalist enterprise.

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As much as this long-term debt of corporations has grown, it has nevertheless proven to be insufficient to appease the capitalist appetite for accumulation. And hence corporations, with the collaboration of the banks and other financial institutions, began to depend more and more on short-term borrowing as a means of obtaining capital both for new investment in plant and equipment and for their everyday operations. Salient facts on these changes for all nonfinancial corporations are shown in Table 2.

TABLE 2

Short-term Debt of Nonfinancial Corporations

End of year	Bank loans	Other borrowing(a)	Gross National Product originating in nonfinancial corporations	Bank loans as percent of GNP	Other borrowing as percent of GNP
	Billions of dollars				
1950	$18.3	$ 1.4	$151.7	12.1%	.9%
1955	25.6	3.0	216.3	11.8	1.4
1960	37.7	6.8	273.1	13.8	2.5
1965	60.7	8.8	377.6	16.1	2.3
1970	102.5	24.3	516.1	19.9	4.7
1974 (first half)	183.6	37.6	727.9	25.2	5.2

a. Includes commercial paper sold by corporations on the open market and loans by finance companies.

Source: Data for borrowing are from *Flow of Funds Accounts 1945-1972* (Board of Governors of the Federal Reserve System, August 1973) for 1960 and previous years; *Federal Reserve Bulletin,* October 1974, for the period after 1960. Data for gross national product originating in nonfinancial corporations are from *The Economic Report of the President* (Washington, D.C., U.S. Govt. Printing Office, 1974) for the data prior to 1974; and the *Survey of Current Business,* October 1974, for first half of 1974.

Especially noteworthy in the data presented in Table 2 is the marked difference between the years before and after 1960. Bank loans increased in the decade of the 1950s, but pretty much in line with the general expansion of nonfinancial corporate business: bank loans as a percent of nonfinancial corporate GNP were 12.1 in 1950 and 13.8 in 1960—a rise, but not an especially significant one. Other short-term borrow-

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ing also grew in this period, but in 1960 it was still small potatoes. Now look at the decisive change that begins with 1960. Between 1960 and 1974 bank loans grew at a much faster rate than nonfinancial business activity, the ratio of the former to the latter almost doubling: from 13.8 percent in 1960 to 25.2 percent in the first half of 1974, while at the same time other forms of short-term borrowing spurted forward.

Still more interesting is the acceleration in the dependence on bank credit. Thus, if we examine the rate of increase of this dependency (as expressed in the column of Table 2 headed "Bank loans as percent of GNP"), we find that reliance on bank credit increases by 17 percent between 1960 and 1965, by 24 percent in the next five-year period, and by 27 percent in only three-and-a-half years from the end of 1970 to the end of June 1974.

While this kind of debt acceleration helps keep the economy going by "driving capitalist production beyond its limits," the dependence on debt produces limits of its own. If we assume for the sake of argument that the sale of bonds and mortgages and the granting of bank loans can keep on increasing endlessly, business borrowers can still absorb this expanding debt only as long as they can make enough profit to meet the rising interest payments. Eventually, if the debt load keeps accelerating, the interest on the debt begins to choke off profits and hence also the incentive, as well as the financial ability, to keep the underlying accumulation process going.

The capitalist answer to this dilemma up to now has been to feed the fires of inflation. As interest burdens increase—the result of larger debt as well as higher interest rates stimulated by the huge demand for money capital—capitalists raise prices to meet these obligations. And as price hikes spread throughout the economy, the need for even more borrowing follows. Thus debt obligations, interest charges, and prices chase each other in the upward spiral of inflation.

Thus far we have examined only one side of the problem: the demand for money by business, assuming in effect that there is no end to the supply of money. To a certain extent, this is a tenable assumption, but only if one also assumes that the government's money-printing presses go mad and end up pro-

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ducing a hyperinflation that destroys the country's currency. Short of such a runaway inflation, we are beginning to see obstacles emerging in the ability of the banks to keep on supplying credit at the accelerated rate of the past. It is true that the banks, in pursuit of ever more profits for themselves, have tried to keep up with the demand for loans. But in doing so they have stretched themselves so thin that their own liquidity is in question, and legitimate fears have been raised about the possible collapse of the financial system.

To understand this aspect of the problem we need to review a few simple fundamentals of how commercial banks operate. The traditional function of such banks has been to act as a depository (safekeeper) of money. Individuals and business firms place their money in these banks in the form of deposits in checking or savings accounts, which the banks should always be able to return on request. The banks in turn accept these deposits because they can make a profit by using the major part of them either to buy bonds or to make loans. Bankers base their operations on the assumption of a certain pattern of withdrawal of deposits by customers, i.e., that only a certain portion will be withdrawn each day. To meet these withdrawals, banks keep a reserve of cash. Since one cannot be too sure that there may not be unexpected surges of deposit withdrawals, an additional part of the deposits is invested in short-term U.S. Treasury bills and notes. The prices of these investments do not fluctuate very much and, more important, they can be sold almost instantaneously in the money market to raise cash, should deposit withdrawals suddenly increase. On top of this, banks invest another part of the deposits in longer-term bonds of the U.S. Treasury, other government bodies, and corporations. On such investments banks make more money than on short-term debt instruments, their disadvantage being that the prices of these bonds fluctuate, which means that the banks can lose money if they are forced to sell when prices are down. Still more profitable for the banks than bonds are loans to businesses and consumers, but these cannot normally be turned into cash until they mature, so they provide little or no protection against a sudden dash by depositors to withdraw funds. Hence, for the sake of safety, banks have tradi-

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tionally maintained a pattern of investment which consists of retaining a margin of ready cash and then distributing their money-making assets among a variety of notes, bonds, and loans.

Against this background look at Table 3, which shows how banking practices have been changing in recent years and why doubts have been arising about the general viability of the banking system.

The rise in the percent of loans to deposits between 1950 and 1960 is not especially noteworthy. Cash reserves in banks (and in business firms) were still very large, reflecting the cash accumulated during the Second World War. Further, the fact that 56 percent of the deposits of the large commercial banks were loaned out still left the banks in a fairly secure position, with comfortable reserves in cash and short-term securities to meet emergencies. It is the inexorable growth of the percentage of loans to deposits since 1960 that cries out for attention. The heating up of the economy under the stimulus of the Vietnam War and the consequent kindling of the flames of inflation induced an expansion of the bank-lending activity beyond any traditional understanding of the so-called fiduciary responsibility of the banks, a process that endangers the safety of the money left for safekeeping and begins to bump against the ultimate ceiling of how much money banks can lend.

Clearly, the banks cannot lend out all of their deposits; some part must be held in reserve to pay depositors who wish to withdraw their money and to cover losses arising from defaulted loans. While there is no trustworthy guide to the "proper" ratio of loans to deposits, the persistent rise in the ratio, especially since 1970, reveals that even apart from their responsibility as safekeepers of other people's money, the banks are fast approaching the absolute limit (100 percent) of the deposits that could be loaned out. Thus, as shown in Table 3, by the end of 1974 the large commercial banks had committed 82 percent of their deposits to loans; the same pattern is seen in the large New York City banks—at the heart of the country's main money market. To see this in perspective, it should be noted that the highest ratio of loans to deposits in U.S. banks between 1900 and 1970 was 79 percent (and that in only

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one year, 1921); in 1929 the ratio was 73.1 percent. (Calculated from data in U.S. Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1957*, Washington, D.C., 1960.)

How the banks were able to reach the extraordinary ratios of the 1970s will be explained below. But for the present it should be noted that a sizable part of the deposits recorded in Table 3 are far from what would be considered "normal" deposits of banks. No less than 40 percent of the deposits of the large New York City banks consists of large certificates of deposit, money borrowed by banks to facilitate the rapid growth of loans beyond otherwise practical limits; and half the increase in these deposits between 1965 and 1974 was generated by the sale of these specially issued short-term certificates of deposit. But more on this later.

This is not yet the whole story. In their search for profits and since they are bumping against limits to their outright lending power, the banks have introduced and are expanding a new technique of lending, called "standby letters of credit." (See *Business Week*, February 16, 1974, p. 120.) For a fee, they guarantee the IOUs issued and sold on the commercial paper market by big corporations. In other words, the banks commit themselves to paying the borrowed money if the corporations default. Since it is the financially weaker corporations that need such bank guarantees in order to sell their IOUs, this type of "indirect loan" is itself of the shakier variety. These letters of credit are not reported on the balance sheets of the banks and are therefore not included in the loan figures shown in Table 3. If they were included, the 1974 percentages of loans to deposits would be even larger than those shown.

Why this mad rush by the banks to expand loans? There are two basic reasons: the lust for profit and the pressure of competition. Banks operate according to the laws of capitalism expounded by Marx. Their dominant motive is the continuous search for ways to expand profits: by accumulating capital and by increasing their rate of profit. They search in every nook and cranny of the economy, using salesmen, newspaper and television advertising, testing new devices—all geared to opening up new opportunities both for lending large amounts to

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TABLE 3
Loans and Deposits: Commercial Banks

End of year	Loans	Deposits	Loans as percent of deposits
	Billions of dollars		
LARGE COMMERCIAL BANKS(a)			
1950	$ 31.6	$ 87.7	36.0%
1955	48.4	105.3	46.0
1960	71.6	127.2	56.3
1965	120.3	181.8	66.2
1970	188.8	266.8	70.8
1974	319.3	389.4	82.0
LARGE NEW YORK CITY BANKS			
1950	$ 9.9	$25.1	39.4%
1955	14.2	27.9	50.9
1960	18.6	31.0	60.0
1965	31.8	45.7	69.6
1970	45.5	63.2	72.0
1974	78.9	93.5	84.4

a. Banks that had total deposits of $100 million or more on Dec. 31, 1965.
Source: Data prior to 1974 are from various issues of the *Federal Reserve Bulletin*. Data for 1974 are from *Federal Reserve Statistical Release H.4.3* for the last week in 1974.

business firms, real estate operators, stock market speculators, finance companies, and also for extending small loans (at even higher rates of interest) to the garden-variety of citizen. This incessant drive for business and profits goes on even as the banks' lending potential (as shown in Table 3) narrows; in this fashion, they are being true to their nature as capitalist entrepreneurs.

The second stimulus for the ballooning of loans is the competition among the banks themselves. Turning down the request for a loan to an established customer always carries with it the threat that the borrower will shift his entire banking business to a competitor. If the customer is a big corporation, there is every reason to expect that another bank will stretch itself to latch on to a new source of business, even if the loan in question does not measure up to "sound" banking practice.

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Both of these pressures—the drive for profits and the need to protect one's already existing market—lead to a larger and larger share of relatively unsafe loans in the banks' portfolios. It should be noted that the very ease with which the larger corporations can get loans facilitates their carrying on their own business affairs beyond safe limits, as clearly seen in the steady decline in the ratio of liquid reserves relative to what the corporations owe. (See "The Long-run Decline in Corporate Liquidity," in MONTHLY REVIEW, September 1970.) And the harder it becomes for the corporations to repay their bank loans (because of declining liquidity), the more the banks are obliged to grant further loans to prevent borrowers from going bust and thus defaulting on the backlog of loans. As willing or unwilling collaborators in the process by which the large corporations operate closer and closer to the edge of the precipice, the banks are themselves drawn nearer to the same edge, for they can manage to lend at such a furious rate only by impairing their own liquidity. What has been happening on this score is shown in Table 4.

TABLE 4

Liquidity of Large Commercial Banks

End of year	*Cash Reserves*(a)	*U.S. Treasury Bonds*(b)	*Short-term U.S. Treasury Notes*(c)	*Cash + All Treasuries as a percent of total deposits*(d)	*Cash + Short-term Treasuries as a percent of total deposits*(d)
	Billions of dollars				
1950	$13.7	$33.7	n.a.	54.0%	n.a.
1955	14.9	30.1	n.a.	42.7	n.a.
1960	14.0	30.2	$ 8.2	34.7	17.5%
1965	16.3	24.3	8.6	22.3	13.7
1970	20.2	28.1	10.3	18.3	11.4
1974	29.5	23.4	7.9	13.6	9.6

n.a.: Not available.

a. Cash in vault plus reserves with Federal Reserve banks, as required by the Federal Reserve Board.

b. Bonds here include bills, certificates, notes, as well as bonds.

c. All treasury securities that mature in less than one year.

d. The data on deposits used as the denominator are those given in Table 3.

Source: Same as Table 3.

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The last two columns of Table 4 are measures of the liquid position of the banks. In other words, they show what percentage of deposits can be got hold of quickly by bank managements to pay back depositors' money in case of an upsurge of withdrawals. The decline in liquidity shown in the penultimate column of this table (the persistent decline from 54 percent in 1950 to under 14 percent in 1974) should come as no surprise after one has examined Table 3, for this decline has been a necessary complement to the increasing percentage of loans to deposits. (This inverse relation is not precisely complementary because of the growth of bank borrowing, as will be explained presently.) Yet even this meager liquidity ratio exaggerates the reserve position of the large commercial banks. First, in order for a bank to qualify as a depository for U.S. Treasury funds, it must keep a specified reserve of U.S. treasuries to back up the government's deposits. Hence, not all of the treasuries included in this liquidity ratio would be available to meet sudden large drains on deposits. Second, the data shown in the third column represent what the banks originally paid for the bonds. (This is standard accounting practice for bank assets.) The market prices of bonds, however, go up and down: as interest rates rise the prices of bonds go down, and vice versa. For example, if a bank wanted to sell a 20-year, 3-percent Treasury bond which had been bought for $1,000 (and so recorded on the bank's books), all that could be realized on that bond in the market at the end of 1974 would have been about $550. Furthermore, if several big banks began to unload their bond holdings quickly, the market price would drop even further.

It follows that the data in the penultimate column of Table 4 overstate the degree of liquidity, sharp as the drop shown has been. A more realistic picture is given in the last column of the table, where only the short-term treasuries (those with a maturity of less than one year) are counted. And here we see the same pattern: a persistent decline in liquidity, dropping by almost half from 17.5 percent in 1960 to 9.6 percent in 1974. There is an interesting feature here that is worth noting. If you look at the first column, you can see that cash reserves have been rising since 1960, not as much as the

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growth in deposits but a significant increase nevertheless. The reason that the banks did this was because they were forced to in order to live up to the requirements of the Federal Reserve Board. But for the next most liquid asset—short-term treasuries—there is no such pressure from the Board. What the banks do with respect to short-term treasuries is their own business. So here the investment by the large commercial banks was actually *reduced* somewhat between 1960 and 1974 while their liabilities in the form of deposits were more than tripling during the same period.*

Liquidity ratios are not the only way of looking at the safety problem. Traditional theory of good banking practice points out that while loans are a source of risk, banks protect themselves by maintaining special reserves in reasonable anticipation of a certain percentage of defaults, and in the final analysis rely on the bank's equity capital (bank stockholders' original investment plus accumulated profits) to make good on unexpected loan losses (thus preventing loss of deposits). But here too the ratio of equity capital to outstanding loans has been steadily dropping, most noticeably since 1960, as pointed out by Arthur Burns in the speech quoted above:

> . . . this enormous upsurge in banking assets [in other words, increase in loans] has far outstripped the growth of bank capital. At the end of 1960, equity capital plus loan and valuation reserves amounted to almost 9 percent of total bank assets. By the end of 1973, this equity capital ratio had fallen to about 6½ percent. Furthermore, the equity capital banks had been leveraged in some cases at the holding company level, as parent holding companies have increased their equity investments in subsidiary

* One of the common illusions concerning this subject is the belief that even if bank liquidity is inadequate the Federal Deposit Insurance Corporation (FDIC) is at hand to protect the savings of depositors. The truth is that the FDIC is only an insurance company and can therefore rescue depositors only to the extent that it has enough assets to cover bank losses. Thus, as an insurance agency the FDIC was designed to deal with occasional breakdowns of one or more banks, and not with a major financial catastrophe. The dimensions of the problem can be seen from the following facts. According to the last annual report of the FDIC, the deposits covered by FDIC insurance amounted to $465.6 billion at the end of 1973. Against this the FDIC had $8.6 billion: $5.6 billion of assets, plus the right to borrow, according to existing law, $3 billion from the U.S. Treasury.

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banks by using funds raised in the debt markets. Thus, the capital cushion that plays a large role in maintaining confidence in banks has become thinner, particularly in some of our largest banking organizations.

For a better understanding of Burns's argument we should know something about bank holding companies. A "loophole" in the amendments to the 1956 Bank Holding Company Act has been used by most of the big banks to expand their activities into a diverse range of non-traditional financial operations. What happens is that a holding company is set up which owns a bank and at the same time may own, for example, mortgage, finance, and factoring businesses. A number of these bank holding companies have gone to the money market to borrow funds in order to carry on this variety of operations, and in the process have used some of the borrowed money to increase their equity investment in their own banks. This is what Burns is referring to: even that small ratio of equity capital to assets is overstated, since some of the equity is really only debt owed by the parent company.

And now we come to where the dog is buried. How do banks manage in practice to keep on extending loans to reach such percentages as shown in Table 3? Normally, banks get resources to meet the demand for loans by increasing their capital, attracting additional deposits, or selling off investments in bonds. As we have just seen, the increase in equity capital was insufficient to support the explosion in loans. Nor have deposits increased sufficiently. Finally, the banks did not want to take the losses that would result from selling off all or a major part of their bond holdings, assuming that they could do so without destroying the market for bonds. So beginning in the 1960s the banks themselves have become major borrowers in order to enable them to indulge in their furious rush to lend. In the process they have created a complex network of borrowing and lending throughout the business world which not only further stimulated the inflationary process, but also resulted in a kind of delicately balanced debt structure that is constantly in danger of breaking down. Now let us look at the facts as shown in Tables 5 and 6. (See pp. 16-17.)

Before discussing the significance of the facts presented

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TABLE 5

Short-Term Borrowing by Large Commercial Banks

	Borrowed money (billions of dollars)					
End of year	From Federal Reserve Banks and others	Federal funds purchased(a)	Large negotiable certificates of deposit(b)	Eurodollars(c)	Total	Short-term borrowing as a percent of total loans outstanding(d)
1950	$0.7	—	—	—	$ 0.7	2.2%
1960	1.8	$ 1.4	—	—	3.2	4.5
1965	6.2	2.6	$16.1	—	24.9	20.7
1970	1.5	18.8	26.1	$7.7	54.1	28.7
1974	4.8	54.0	92.2	4.0	155.0	48.5

a. The data for 1960 and 1965 are from a special series designed by the Federal Reserve Board, based on the 46 most active commercial banks in the federal funds market. The data for these years are not comparable with those for later years, but are given here to indicate the trend. The data for 1970 and 1974 include, in addition to federal funds purchased, securities sold under agreements to repurchase identical or similar securities, and sales of participations in pools of securities.

b. These are short-term certificates of deposit issued in minimum amounts of $100,000.

c. These data are the reported "Gross Liabilities of Banks to Their Foreign Branches." According to the Federal Reserve Bank of New York, *Glossary: Weekly Federal Reserve Statements,* this item is often used as a proxy for Eurodollar borrowings, though these data include some other types of transactions between domestic banks and their foreign branches.

d. The data on loans used as the denominator are those given in Table 3.

Source: Same as Table 3.

in these tables, let us first explain what some of the headings mean. The first item, money borrowed "From Federal Reserve Banks and others," is a catchall, which includes among other things a usually relatively small amount of money that the Federal Reserve Banks lend for a short period to help banks maintain their required reserves, and money borrowed by banks on their promissory notes and other collateral.*

* A description of these various devices, including loan participation certificates, bank-related commercial paper, as well as other items covered in Tables 5 and 6, can be found in Robert E. Knight, "An Alternative Approach to Liquidity, Parts I-IV" in the *Monthly Review* of the Federal Reserve Bank of Kansas City, December 1969 and February, April, May 1970. A shorter version of these questions can be found in Donald M.

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TABLE 6

Short-Term Borrowing by Large New York City Commercial Banks

End of year	Borrowed money (billions of dollars)					
	From Federal Reserve Banks and others	Federal funds purchased(a)	Large negotiable certificates of deposit(b)	Eurodollars(c)	Total	Short-term borrowing as a percent of total loans outstanding(d)
1950	$0.4	—	—	—	$ 0.4	4.0%
1960	1.0	$ 0.8	—	—	1.8	9.7
1965	2.5	1.4	$ 6.9	—	10.8	34.0
1970	0.2	5.5	7.9	$5.2	18.8	41.3
1974	1.7	13.6	31.7	2.8	49.8	63.1

a. Same as in Table 5, except that the earlier data are based on a series for eight New York City banks.
b. Same as in Table 5.
c. Same as Table 5, except that the figure for 1974 is estimated, based on past ratios of Eurodollar borrowing by New York City banks to all commercial banks.
d. Same as in Table 5.

Source: Same as Table 3.

The series on "Federal funds purchased" represents, in large measure, borrowings for one business day of excess reserves from other banks willing to lend their funds. There are other borrowing devices included in this category, which as in the case of the federal funds were originally designed to cope with temporary adjustment problems of the banks. But these devices became transformed during the 1960s to meet an entirely different purpose: a tool by the biggest banks to mobilize the maximum of money resources, through going extensively into debt, in order to accelerate the pace of lending.

Still another method of borrowing developed by the big banks in the 1960s was the issuance on a large scale of negoti-

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De Pamphilis, "The Short-term Commercial Bank Adjustment Process and Federal Reserve Regulation," in the *New England Economic Review* of the Federal Reserve Bank of Boston, May/June 1974. This is a summary of a more detailed treatment in one section of Federal Reserve Bank of Boston Research Report No. 55 by the same author, *A Microeconomic Econometric Analysis of the Short-term Commercial Bank Adjustment Process.*

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able certificates of deposit (CDs) in minimum amounts of $100,000. These too are short-term debts of the banks. Funds raised in this fashion are used to create new loans by the banks which, in addition to being usually of longer duration than the life of the CDs, do not necessarily mature at the same time. This puts the banks under constant pressure to refinance the CDs when they become due, hopefully by issuing still more CDs.

Finally, there is the resort to Eurodollar borrowing. This in effect means the borrowing by U.S. banks from their branches abroad, and is based on the dollar deposits in these foreign branches. This method began to be used in 1966, but became especially important during the credit crunch of 1969. As can be seen from the data for this item shown in the accompanying tables, this method is used intermittently.

There are various technical aspects to these data which need not be gone into here. The important thing is to understand the speculative nature of the enormous debt expansion by the banks—both as borrowers and lenders. On the one hand, the banks are gambling that businesses will be able to repay their loans despite (a) declining corporate liquidity, and (b) the fact that many firms are borrowing to pay for investment in plant and equipment that will take longer to produce the income needed than is required by the loan repayment schedules. On the other hand, the banks are speculating on being able to support this large and growing lending by having recourse to the mercurial money markets. How rapidly this short-term borrowing has grown and how dependent banks have become on this type of debt to expand their loan load is shown in Tables 5 and 6. From Table 5 we learn that the reliance on short-term borrowing by the large commercial banks reached a point by the end of 1974 such that it represented almost 50 percent of outstanding loans. Even more striking is the case of the large New York City commercial banks, where, as can be seen in Table 6, 63 percent of their outstanding loans is accounted for by short-term borrowing.

It is also important to understand the degree of uncertainty involved in these various forms of borrowing by the banks. They are almost all interest-sensitive, which means that the quantity of such borrowing can fluctuate very widely over relatively

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short periods, depending on the interest differentials for various types of borrowing. Arthur Burns in the previously quoted speech refers to the "volatile character" of these borrowings. And it is on these foundations that the equally volatile structure of loans, which keep the economy going, is based.

In short, the commercial banking structure, and the entire business world that relies on this structure, is skating on thin ice that is getting progressively thinner.

Why haven't the powers-that-be done something about this? As noted above, there is good reason to believe that all this has been well known for some time by the government agencies set up to prevent such menacing developments. From time to time, these agencies, and in particular the Federal Reserve Board, have taken steps to moderate one or more abuses, only to find that the financial community either found a loophole in the regulations or discovered another avenue to stretch out the debt load. Basically, the regulatory agencies were helpless, despite all their bold stances, because they too were committed to the same ends as the ruling financial and other business circles: to increase profits and to expand business opportunities, with all that these ends entail, including imperialist expansion and the Vietnam War. Rowing in the same boat as the business community, the regulators had to close their eyes to the dangers, trusting in lucky stars. Once the excesses began to reach a critical point it was too late to retreat, for too much disturbance of the intricate and complexly interrelated debt structure could all too easily break the thin ice.

The transformations described here also illuminate how fanciful are the myths of economists, Keynesians and non-Keynesians alike, who insist that they can produce a smoothly running capitalist economy by manipulation of such matters as fiscal policy, interest rates, and the money supply. The point is that all such devices do not get to the heart of what makes the capitalist economy go.* At best, they cover up for a while

* In addition, hands of the policy-makers are usually tied. It is impossible to devise consistent policies that can at one and the same time handle the conflicting pressures on a capitalist economy: for example, the need to finance the military budget; to keep the money markets in shape to absorb the debts of federal, state, and local governments; to support the

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the contradictions of the capitalist system—contradictions that cause eruptions at one time or another—with the credit and banking arrangements being, as Marx long ago explained, at the center of capitalism's vulnerability to crisis.

The advanced thinkers of the ruling class are well aware of the inadequacy of the traditional nostrums as well as of the potential threat of a United States and world-wide depression. They are therefore searching for new and more reliable ways to keep the ship from sinking. It is possible to discern from the business press two important approaches emerging. One is to get the government's finances more actively engaged in salvaging business and banking firms that begin to flounder. This, however, has certain limits, for it entails widening the money and credit stream, and thus reinforcing the inflationary trend. (Over $1 billion, and by some estimates close to $2 billion, was lent by the Federal Reserve to Franklin National, merely the 20th largest commercial bank at one time, to keep the institution's head above water until some sort of reorganization could be effected, and to sustain public faith in the banking system, thus avoiding a possible flood of withdrawals from other banks. Imagine what would be required if one of the real giants began to gasp!)

The second, and more basic, line of thought is to create a firmer financial foundation for business, so that corporations can rely more on equity capital and less on debt. For this, a greater rate of profit would be needed by business. But that alone would not be enough. The government would have to step in more actively: first, to mobilize federal finances to fatten the equity position of industrial and financial firms; and second, to rationalize monopoly capital by weeding out the weaker firms. Within the limits of capitalism, measures of this sort can have only one meaning: to cut into the living standards (wages and welfare) of the working class, the old-age retirees, the petty bourgeoisie, and smaller businessmen. This is the only way that profit rates can be beefed up and finances procured to

dollar abroad; to improve the balance of payments by attracting foreign funds and stimulating exports; to try to keep inflation from getting completely out of hand; to see that the banks have enough money to rescue tottering corporations; to keep the economy expanding at a rate sufficient to provide jobs for the labor force, etc., etc.

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strengthen the equity capital position of the bigger corporations.

Here lies the challenge to the working class and whatever allies may be available to it. Above all, it is necessary to destroy prevailing illusions about the possibility of regulating capitalism in such a way as to produce prosperity for all classes. The ruling class will soon be sharply drawing the class issues with the hope of stabilizing their own affairs. Only by facing up militantly to the fundamental class nature of the impending struggle, which means challenging capitalism as such, does the working class have a chance to protect its true interests.

(January 7, 1975)

The credit system appears as the main lever of overproduction and overspeculation in commerce solely because the process of reproduction, which is elastic in its nature, is here forced to its extreme limits, and is so forced for the reason that a large part of the social capital is employed by people who do not own it and who push things with far less caution than the owner, who carefully weighs the possibilities of his private capital, which he handles himself. This simply demonstrates the fact, that the production of values by capital based on the antagonistic nature of the capitalist system permits an actual, free, development only up to a certain point, so that it constitutes an immanent fetter and barrier of production, which are continually overstepped by the credit system. Hence the credit system accelerates the material development of the forces of production and the establishment of the world market. To bring these material foundations of the new mode of production to a certain degree of perfection, is the historical mission of the capitalist system of production. At the same time credit accelerates the violent eruptions of this antagonism, the crises, and thereby the development of the elements of disintegration of the old mode of production.

—Karl Marx, *Capital*, vol. 3

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THE U.S.-CUBAN POLICY DEBATE

BY JAMES F. PETRAS

In recent months there have been a number of speeches, Congressional hearings, articles, and general pronouncements calling for a re-examination of U.S. policy toward Cuba. Some commentators have proposed the elimination of the trade embargo and the opening of economic and diplomatic relations, while others have argued for lesser measures, "probing" operations which involve cultural exchanges as opening steps toward a "normalization" of relations.[1]*

And yet despite this mounting campaign and significant shifts in public opinion,[2] the Kissinger-directed foreign policy apparatus has not indicated any desire or interest in changing or revising policy. It is the purpose of this paper to examine some of the underlying reasons for the shift toward a more "liberal" policy toward Cuba among significant Congressional figures, as well as to consider the political framework which guides the conservative outlook of the Kissinger foreign apparatus.

In comparing and contrasting the rationale of each of the

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* Notes will be found at the end of the article.

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parties we will also outline the areas of agreement. The pursuit of common political-economic goals should not be obscured by our discussion of the differing approaches which are presented. It is clear from the discussion that both those who favor liberalizing U.S. policy as well as those who are intent on maintaining the current policy are hostile (in varying degrees) to socialism, to the Cuban leadership, and to the extension of socialism to the Latin American mainland; both share a desire to support U.S. corporate interests (property expropriated in Cuba, as well as firms operating in Latin America); both agree that Cuba's reintegration into the world-capitalist system would be a desirable event.

Within this common framework, however, substantial policy differences have emerged on several dimensions:

(1) On the nature of the Cuban regime, its policies, its durability, capability and orientation.

(2) On the impact of *past* U.S. policies on Cuba, on U.S. economic and political interests, and on Latin America.

Underlying these specific issue conflicts are differences in the overall approach to foreign policy. The conservative perspective divides the world rather rigidly according to power centers, each allocated a sphere of influence within which the degree of deviance is quite limited; the liberal perspective, while approving of this overall pattern, makes room for local accommodations with durable regimes which have already achieved a measure of autonomy. These differences in the application of the spheres-of-influence doctrine are important in understanding the current debate between Congressional liberals on the one hand and Kissinger and State Department conservatives on the other. U.S. State Department policy toward Cuba is shaped by and operates on the basis of general formulas (big-power agreements and spheres of influence) and simple deductions (Latin America is in the U.S. sphere of influence; Cuba is not under our influence, therefore it must be isolated because it threatens our supremacy). This perspective has led to a serious underestimation of the growing support in the region for re-establishing relations with Cuba,[8] the growing isolation of the U.S. position, and the likely decline of U.S. influence in hemispheric politics.

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Given the changing nature of Latin American realities, the real choices facing U.S. policy-makers are no longer whether to recognize Cuba or not but what levers the U.S. can try to use to extract concessions from Cuba before recognition.[4] As recognition of Cuba becomes a general policy in Latin America, the U.S. bargaining position will sharply deteriorate and it will eventually fall into line.

Kissinger's selective application of détente (to China and Russia, but not to Cuba) is based on the notion that big powers are in a position to divide up the world into distinct spheres of influence. In this view, the spheres are mutually exclusive, and each power center has the right to police its area of concern. Cuba is not considered a power center and it is in what U.S. policy-makers consider their sphere of influence. Furthermore, the Cuban Revolution is not subject to U.S. tutelage but rather competes for support among nations within what U.S. policy-makers consider their domain. The failure of Kissinger to extend to Cuba the policy of détente has been a result of the contradiction between a great power spheres-of-interest policy and the existence of a revolutionary society within that sphere. State Department officials fear that in recognizing Cuba the stage will be set for a realignment of forces within the hemisphere around an alternative pole, one not necessarily socialist but likely anti-imperialist. The process of trying to separate the Cuban aspect of U.S. policy from the general problem of containing its impact on the rest of Latin America continues to plague high officials. Their seeming unwillingness to move an inch on Cuba is in large part a function of their deeper concern with the emerging cleavages in the hemisphere, which presently (after Allende) lacks a directing focus. The dilemma of the State Department was put in the following terms: "There is nothing that you can touch with Cuba. As I say, this is all one ball of wax and if you pull one string you have to be prepared to see your entire policy unravelled."[5]

The first major feature of détente, the mutual recognition by great powers of spheres of influence, not only excluded Cuba (by definition) but served as the basis for continuing U.S. hostility not only to Cuba but to Allende's Chile. The second feature of détente was the hope of opening up a vast new market

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for U.S. goods in China and Russia. In contrast, U.S. policy-makers see few economic opportunities in Cuba, where the economy is closely integrated with that of the Soviet Union and lacking in strategic materials.

These two features of détente underlie the dogmatic and seemingly impervious-to-change attitude which has found expression in State Department testimony before Congress. To extend détente to the hemisphere would be to challenge the benefits which U.S. policy-makers believed they were securing in making their world-wide arrangements with the Communist powers.

The *diktats* of big-power politics, however, are more conveniently discussed at summit conferences, not at Congressional hearings where democratic-sounding foreign-policy rhetoric is at a premium. The conservative arguments against a change in policy toward Cuba have been cast in the traditional jargon of pre-détente Cold War politics: (1) Cuba is exporting revolution and threatening Latin America; (2) Cuba's military ties with the USSR are a threat to the United States and the world "balance of power." But once the discussion shifts from the general postulates of Kissinger global foreign policy to specific arguments, the initiative passes to the liberals. The ongoing policy of economic blockade of Cuba and the lack of diplomatic ties are measured against their possible effects on Cuban development and on U.S.-Latin American relations. Against the conservatives who maintain that Cuba would have to disown publicly any nationalist, populist, or socialist movement in Latin America and discontinue military assistance from the USSR before the United States would negotiate a settlement, the liberals have recognized that these extreme demands are unrealistic: it is like asking the Cuban leadership to commit suicide. The liberal position is based on a general uneasiness with what is perceived to be a changing situation which in turn could seriously undermine U.S. influence—a circumstance which has several ingredients which liberals sense need to be taken into account by the State Department. The liberals recognize that outside pressures will not undermine the Cuban economy, and that the most difficult moment in converting the Cuban economy from a U.S. dependency has passed. They recognize that the Cuban government is durable, that the Revolution is

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consolidated, that the political situation in Cuba is stable, that the leadership has substantial popular support and is immune to U.S. pressure. The liberals fear that the conservatives' Cuban policy is weakening the U.S. hold on the continent, that the breach between the U.S. and Latin nations on the Cuba issue, leading to a diplomatic defeat, will be extended to other issue areas, isolating the United States and further disintegrating the informal empire constructed during the past thirty years. Liberals no longer give credence to conservative claims that the economic situation in Cuba is deteriorating and that the internal political situation is ripening for outside efforts which go over the head of the government to the "discontented masses." In short, they have recognized that *they must deal with the Cuban government as it is and will be for some time to come.* Having reached that point, however, the liberals are not adverse to advancing the interests of pre-revolutionary classes (compensation payments) as conditions for negotiation. The liberals wish to avoid hemispheric confrontations that lead to defeat, but at the same time hope to contain the conflict by partial steps which, as one Senator put it, "defuse" the Cuban issue without dismantling the constraints that were established earlier. The conservatives seemingly reject this delicate maneuver of "defusing" without dismantling because they fear that the momentum gained from any Cuban initiatives will rapidly lead to a complete breakdown of the complex prophylactic measures, treaties, and embargoes, so ardously elaborated over the past decade.

The liberals are increasingly prone to negotiate with Cuba for several other reasons, primary among which is the notion that Cuba is now seeking to build socialism on one island. The liberals recognize the fact that Cuba is no longer providing material support to revolutionary movements in Latin America. They also fear, however, that Cuba's policy of supporting and working alongside non-revolutionary governments on specific-issue areas could galvanize nationalist sentiment against U.S. economic interests in a period when the U.S. capacity to militarily impose or economically dictate positions is declining.

Secondly, liberals are taking a long-term "gradualist" approach to counter Cuban socialism. Rejecting the conservatives

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"catastrophic" approach to Cuban policy (the notion that the embargo will squeeze the Cuban people to the point where they will rise up and overthrow the government), the liberals, in search of new ways to weaken the revolutionary impulse emanating from Cuba, hope that through a variety of political, social, and cultural relationships Cuba can be opened up to U.S. penetration. In discussing the new flexible approach, the liberals focus on what they describe as "exploitation of the strategic implications of the Cuban question." As one Senator summarized this perspective:

> How do you exploit that situation? Do you exploit it by freezing up and leaving no alternative or do you try to take advantage of it? I would rather think we might emulate our policies in Eastern Europe where very steadily we have chipped away at trying to establish a contact, first by cultural exchange or a little bit of trade or just a visitor. . . . There is no "either/or" in this. It is all those areas in between that I think give us our flexibility . . . if we could . . . exploit that situation in small but reasonable ways that would do more than by keeping this very rigid stance. . . .[6]

The liberal position of "small openings" and the posture of flexibility is shaped by a need to evaluate the relationship of forces in the hemisphere, as well as to determine the type of concessions which can be obtained from Cuba to widen opportunities for penetration. The key problem appears to be the uncertainty over the direction of certain Latin regimes and the degree of split which is envisioned. Secondarily, the liberals are concerned with determining the kind of leverage they may have in dealing with Cuba.

The uncertainty is, in large part, a product of the effort that liberals are making to define the new realities in Latin America. The new definition of reality reflects a series of changes which, despite important reversals (such as the overthrow of Allende), bode ill for U.S. policy and strongly suggest new openings for Cuba.

The rise of "establishment nationalism" in Latin America has as its cornerstones the election of Perón in Argentina, the radicalization and continuation of the Velasco government in Peru, and by extension the emergence of aspiring nationalist regimes in Panama and Ecuador. Several related political

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changes have also contributed significantly to altering the external relations of Latin countries: the rising price of oil, the growing importance of OPEC, and the subsequent strengthening of Venezuela's bargaining position in the hemisphere have given the once pro-American *Acción Democrática* party the backbone to resist blindly following the U.S. lead.* The relative decline of the U.S. economy and the need for new markets, capital, and forms of economic collaboration have forced Mexican President Echeverría to seek closer ties in Latin America and to downplay the continued and obvious dependence of the Mexican economy on the United States. In the Caribbean, the West Indian countries have begun to increase pressure for a greater share of the mineral earnings and even to move toward nationalization (Guyana). Even in Colombia, the election of Lopez Michelson signals a shift toward "modernization," which in turn may also lead toward efforts to diversify external sources of financing and trade—thus weakening U.S. economic predominance. Collectively, these non-revolutionary changes indicate a declining U.S. role, a shift toward a greater diversity of political orientations—less tail-ending after the United States and more autonomy in dealing with the Cuban question.

The changes in Latin America have been paralleled by a changing appreciation of their significance in Cuba. The old dichotomy between revolutionary/non-revolutionary states has been dissolved into a series of general formulas which, in effect, pay less attention to the social bases of the regime and more to its external orientation. As Fidel Castro put it on July 26, 1974: "Today the governments of this hemisphere are divided into a minority of lackeys that still blindly follow the dictates of imperialism and a majority of governments that are no longer willing to follow those dictates—that are willing to practice an independent foreign policy."[7]

Cuba, unlike the United States, has no big-power pretensions. It defends itself not with client-states but with allies. Hence Cuba's support for independent governments in Latin

* No doubt changes within the party and in the internal political situation have further contributed to the nationalist measures evidenced in President Pérez's first year in office.

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America, regimes which are looked to by the United States for support in its global power struggles.

Cuba has changed its Latin American foreign policy from one of revolutionary bi-polar politics toward a more inclusive regionalist-bloc strategy for isolating the United States. There are several reasons for this:

(1) The decline of guerrilla movements in the 1960s and the overthrow of leftist regimes in Chile and Bolivia left few prospects for solid relationships between nations based on common ideological bonds.

(2) The emergence of a number of regimes which were influenced by the radicalism of the 1960s and which are attempting to define alternative development routes (the usual claim is that they are neither capitalist nor communist).

(3) The successful transition of the Cuban economy from a U.S. dependency to a developing socialist society with a solid institutional infrastructure was largely based on Soviet aid. As the Cuban economy expands and begins to diversify its economic activities, it seeks to widen its sources of trade and technology. This, in turn, has encouraged a Cuban foreign policy which is based on ideological and economic pluralism. Today Cuba is developing relations with military-nationalist regimes (Peru, Ecuador, Panama), parliamentary liberal and social democratic regimes (Colombia, West Indies, Venezuela, Guyana, Mexico) and conservative-nationalist regimes (Argentina). What all these governments have in common is their elaboration of a foreign policy which tends toward maximizing external trade and financial relations—which at the present time does not necessarily, or for that matter usually, involve the United States.

The declining position of the United States in Latin America is relative and the process has been a gradual one.[8] The increase of European, Japanese, and communist trade and investment in the area, the growing importance of the mineral-producing countries, the increasing bonds within the region between state-sector enterprises—and the "leftist" technocrats who devise the investment programs within the state sectors of the nationalist regimes—have all given impetus to efforts to disengage from commercial and investment networks directed

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by and for the United States. The process of disengagement has been incremental and halting, and yet it has provided clear signs of shifting political alignments—as the new obvious cleavages over the Cuban question clearly illustrate. The effort by the United States to counter capitalist competition in the West by turning to the East has as one of its consequences the broadening of trade ties between Latin America and the Communist countries—including Cuba. The privileges of détente cannot be confined to the United States; its example has been followed, and today U.S. subsidiaries in Argentina dutifully supply many of Cuba's automotive needs. The United States does not and cannot command the automatic loyalties of the Europeans and Japanese: within the new shaky political and military alliance, increasing competition for scarce resources and external outlets has given the Latin countries a relative degree of autonomy in devising development strategies. It is this opening to the outside among Latin countries, as well as the "regionalist" tendencies within Latin America, which preoccupy liberal Congressmen. Together, these changes, which find their most immediate and direct expression on the question of recognizing Cuba, spell out clearly the deterioration of U.S. hegemony in the area. And it is this erosion of U.S. influence both from within the hemisphere and from without, through the emergence of intra-capitalist rivalries and "nationalist" economic forces, that provides the basis for liberal realism and undermines Kissinger's highly schematic and mechanical five-polar world. In this context, Cuba's non-confrontation strategy—of circling the enemy and avoiding head-on collisions—is paying handsome dividends: increasing relations with Latin America and Europe and increasing isolation of the United States.

In this situation Kissinger's policies of subversion and economic coercion could not be applied across the board. Kissinger's obvious choice was Chile under Allende. Toward the rest of Latin America his proposals for a "New Dialogue" are essentially a holding operation—an effort to limit the *centripetal* tendencies which have already surfaced. No new proposals for trade, aid, or technology have come forth. The obvious choice for those Latin countries with a relatively independent social base is to look elsewhere. It is not likely that Kissinger can

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engineer a series of Chilean-style coups throughout the region in order to reassert U.S. dominance—though efforts in Argentina and other areas are more real than apparent. Having little to offer, the New Dialogue turns out to be little more than the Old Rhetoric—and the way is paved for the first major diplomatic defeat for the United States in, of all places, the OAS, which Castro, ironically enough, referred to in his July 26th speech as "a corpse in a complete state of decay."

The debate over U.S. policy toward Cuba has been forced upon the U.S. political elite by external pressures: the growing success of the Cuban Revolution in its transition toward socialist development; the increasingly divergent interests within the Latin American continent and the emergence of new foreign-policy options; and the relative decline of the United States in the world economy. The debate has thus far been based on propositions about international politics largely derived from traditional "big-power" politics which, however, are not altogether relevant in an era of growing solidarity among primary producers in the Third World. The debate between what we have described as liberals and conservatives has raised important issues and proposals for revision of particular approaches to specific problem areas such as Cuban policy. Nevertheless, the essential strategic goals of defeating socialism and promoting capitalism still direct even the most critical official discussions. In that general sense, the debate concerns estimates of the most efficacious policy instruments to apply in a period of narrowing opportunities and changing alignments.

Despite the intransigence of Kissinger and his State Department supporters, it appears that a change in U.S.-Cuban relations will be forthcoming. The alliance of substantial fractions of big business, key Congressional figures, the liberal media, and various and sundry other forces will probably force Kissinger to modify his dogmatic and schematic approach to the application of spheres-of-influence politics. The major reason for this opposition to Kissinger and the likelihood of its success is that his policy is clearly counterproductive with respect to the immediate and middle-range interests of corporate capitalism within Latin America and even regarding Cuba. The automotive

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sales to Cuba by U.S. subsidiaries in Argentina was the first but not the last indication of serious fissures within the U.S. establishment. The fact-finding mission to Cuba by Pat Holt, chief of staff of the Senate Foreign Relations Committee, and the visit of Senators Javits and Pell, both against the efforts of Kissinger and the State Department, further substantiate the notion of a profound cleavage in U.S. policy-making circles.[9] Kissinger, in this context, can no longer follow Metternich either in style or in substance.

NOTES

1. See, for example, U.S. Congress, Senate, Committee on Foreign Relations, Sub-Committee on Western Hemisphere Affairs, *U.S. Policy Toward Cuba,* 93rd Congress, 1st session, March 26 and April 18, 1973. Washington: U.S. Government Printing Office, 1974, *passim;* Jorge I. Domínguez, "Taming the Cuban Shrew," *Foreign Policy,* No. 10, Spring 1973, pp. 94-116; *Congressional Record—Senate,* February 5, 1974, pp. S1252-S1256 and February 6, 1974, pp. S1347-1348; *Congressional Record—House,* February 13, 1974, p. E619; Laurence Stern, "Quiet Moves Made on Restoring Relations with Cuba," *Washington Post,* August 24, 1974, p. A12.
2. During the period February 16 to 19, 1973, over 1,500 adults were interviewed in person in more than 300 scientifically selected localities across the U.S. on the issue of Cuba. Over 70 percent of those interviewed favored a trip to Cuba by Henry Kissinger in the hope of improving relations between the two countries, while only 19 percent opposed such a trip. More than 31 percent of those interviewed stated that they would like to visit Cuba if travel restrictions were lifted, and this figure increased to approximately 40 percent for particular groups within this sample (men, persons with a college background, persons under 30 years of age). See U.S. Congress, Senate, *U.S. Policy Toward Cuba, op. cit.,* pp. 56-57.
3. Peru, Argentina, Panama, Mexico, Jamaica, Barbados, Trinidad-Tobago and Guyana all have diplomatic relations with Cuba. Countries such as Costa Rica, Venezuela, Colombia and Ecuador appear ready to re-establish diplomatic relations within the near future. Even Brazil has

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modified its rigid opposition to Cuba. (See "Latin America: The Return of Cuba," *Latin America,* April 26, 1974, p. 121.)

4. See U.S. Congress, Senate, *U.S. Policy Toward Cuba, op. cit., passim.*
5. *Ibid.,* p. 28.
6. *Ibid.,* p. 21.
7. *Granma,* August 4, 1974, p. 2.
8. Brazil, the most important ally of the United States in Latin America, has, for example, experienced a relative decline in levels of U.S. investment, financing, and trade vis-à-vis other industrialized capitalist countries, particularly Japan. Trade figures for the period 1968-1971 (see below) show the extent to which Japanese-Brazilian trade was becoming increasingly important prior to the vast amounts of Japanese investments and loans that flowed into Brazil since 1972.

SELECTED BREAKDOWN OF BRAZIL'S FOREIGN TRADE

	Exports ($ million)	*Share of Total (%)*	*Imports ($ million)*	*Share of Total (%)*
		1968		
Total	1,881		2,132	
United States	627	33.3	685	32.1
West Germany	148	7.9	236	11.1
Japan	59	3.1	73	3.4
		1971		
Total	2,903		3,701	
United States	760	26.2	1,063	28.7
West Germany	256	8.8	475	12.8
Japan	158	5.4	259	7.0

Source: "How Japan Stacks Up as Trading Partner," *Business Latin America,* March 8, 1973, p. 75.

We can observe from this table that, while United States imports from Brazil increased by 55 percent during the period under discussion, Japanese imports increased by 255 percent and even West Germany's imports rose by 101 percent. For the same period, Brazil's exports to the United States increased by 21 percent, to West Germany by 73 percent and to Japan by 168 percent.

For details on the influx of Japanese investments into Brazil in the last few years, as well as West German investments, see, for example, "Brazil's Iron and Steel Surge Draws Multi-Billion Dollar Stakes," *Business Latin America,* October 24, 1973, pp. 337-338; "Japanese Keep Up Investments," *Business Latin America,* January 16, 1974, p. 18; "Brazil Continues to Attract Major Foreign Investment," *Business Latin America,* April 10, 1974, pp. 113-115.

9. In a letter to Senator Fulbright, chairman of the Senate Foreign Relations Committee, Secretary of State Kissinger stated that the State Department "reluctantly agree[d] to validate [Holt's] passport for this travel [to Cuba]." See U.S. Congress, Senate, Committee on Foreign Relations, *Cuba: A Staff Report,* 93rd Congress, 2nd session, Committee Print, August 2, 1974, Washington: U.S. Government Printing Office, 1974, p. vii.

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CLASS AND CLASS CONFLICT IN AFRICA

BY IMMANUEL WALLERSTEIN

Class analysis of contemporary Africa has had a shaky history. Before the Second World War, most scholars who wrote about Africa scarcely took Africa seriously enough to use so contemporary and so "European" a concept as class or class conflict to apply to the social structure of a colonial society (with the exception of authors dealing with the rather special situation in South Africa). Some European analysts, particularly those linked with the French Communist Party, did undertake such analysis[1]* but they tended to be so mechanistic in their application of categories, especially in attributing to urban wage-workers (the "proletariat") an undue importance as a social and political force, that they were discredited. Furthermore, when such movements as the *Rassemblement Démocratique Africain* and the trade unions broke their political links with the French Communist Party, they included a rejection of class analysis in their general critique of communist political strategy.

Immanuel Wallerstein is the author of the recent book *The Modern World-System*. An earlier version of this article appeared in the *Canadian Journal of African Studies*.

* Notes will be found at the end of the article.

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An even more influential factor, however, was probably the emergence of a "liberal-modernist" ideology among younger Western scholars. This group sought to take contemporary Africa very seriously. They found two groups of intellectual opponents. One was an "old guard" of Africanist scholars and administrators who considered "national" and nationalist phenomena in Africa as socially superficial and emphasized what they consid ered to be the continuing reality of "traditional" tribal affiliations. A second was the main body of social scientists in Europe and North America who, having knowledge only of their own societies, wanted to apply their conceptual frameworks as mechanistically as did the ideologues of the French Communist Party.

As against both these sets of opponents, the "liberal-modernist" wing of scholars asserted that there was something new emerging in Africa, comparable perhaps to what was occurring in Asia and Latin America, but distinct from what was happening in the Western world. This group further asserted that these phenomena had to be taken seriously on their own terms. The linguistic apparatus used to describe these "new" African developments included terms like modernization, nation-building, élites, integration. As for class, this group tended to take the position that this concept was only doubtfully relevant to the picture.[2]

As for the Africans themselves—both intellectuals and politicians—they found "class" a nationally divisive concept (as indeed most found "tribe"). They handled it by firmly denying its existence, or at least minimizing its significance.[3] That such a denial serves particular ideological functions for men in power seems so banal as to be scarcely worth noting.[4]

Thus by 1960, most scholars seemed to converge in an effort to bury class analysis in Africa.[5] However the 1960s were a traumatic decade for Africa in many ways. The aura of nationalist unity began to fade amidst the harsh daily realities of an independence which brought visibly widening income gaps for the African population, and military governments that made scarcely a pretense at intellectual appreciations of their own societies. Furthermore, the failure to "develop" economically com-

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bined with the continuing resistance of the white redoubt of southern Africa to political change and majority rule tended to make very clear the world context within which African states operated. Some politicians began to talk of class conflict,[6] and many African intellectuals began to theorize about Africa as a part of the "peripheral capitalist" world.[7] Some began to criticize sharply the writings of what I have called the "liberal-modernist" school, precisely because they ignored class analysis.[8]

This then is, if you will, the background in terms of intellectual history of the debate. It does not speak to the issues themselves. Can we speak of classes in contemporary Africa? Is class conflict a fundamental or even an important explanation of African political life? For those who say no, the argument usually is based on the fact that some classes are largely "missing" in Africa, or that "ethnic" or other interpersonal links are far more determinative of political actions than class membership. Usually the negative position is couched, explicitly or implicitly, in a comparative frame: i.e., while "class" may be said to matter in Europe, it does not in Africa. This negative view, often expressed very cavalierly, seems to me to misread simultaneously the contemporary African scene, the real history of Western Europe, and the arguments of classical Marxist class analysis.

Although the origin of the concept of class, and even of such key terms as proletarians, is derived from an analysis of Roman society,[9] the fond reference point of so many eighteenth-century and early nineteenth-century thinkers, almost all of the concrete use of the terminology refers to capitalist systems. Indeed, it might be argued, although I shall not do it here, that the concept of "class" is historically specific to the capitalist mode of social organization. It might further be argued, and this I have done elsewhere,[10] that capitalism is to be located only in the form of world-system I have called a world-economy, and which has existed as a European system since about 1450, and as a global system since about 1815.

The peculiarity of the capitalist world-economy is that the boundaries of the economic and political structures are different. While the world-economy is defined as a system having a single

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division of labor, in a capitalist world-system the political units are states, which however vary in degree of strength vis-à-vis other states (the weakest form being the colony, which has no formal sovereignty at all). This results in the following situation: while a group's social activities are in some ultimate sense determined by their role in the world-economy, the object of their political activity (to secure or transform their position in the social system) is primarily directed at the state of which they are a member ("citizen").

This is very relevant to the confusion that surrounds the term "class." For class represents an antinomy, as a dialectical concept should. On the one hand, class is defined as relationship to the means of production, and hence position in the economic system which is a *world*-economy. On the other hand a class is a real actor only to the extent that it becomes class-*conscious,* which means to the extent that it is organized as a *political* actor. But political actors are located primarily in particular national *states.* Class is not the one or the other. It is both, and class analysis is only meaningful to the extent that it is placed within a given historical context.

Nor is class consciousness the only form of consciousness. Empirically, it is obvious that within a capitalist world-economy ethno-national consciousness is a far more frequent phenomenon than class consciousness.[11] Furthermore, the interrelationship between class consciousness and ethno-national consciousness is not the same in states located in the periphery as against the core of the world-economy.[12]

I have suggested previously that there are two forms of ethnic consciousness.[13] Here I would like to argue that there are (at least) two forms of class consciousness, and that while the *form* of class consciousness and class conflict may be different in contemporary African states from that of, say, contemporary Western Europe, they are both expressions of *class* interest. Nor can *either* be understood without taking into account the position of each state within the world-economy. We can then evaluate for a given group the socio-economic consequences within this *world*-economy of particular class-oriented action undertaken at the *national* level.

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As the European world-economy took form in the "long" sixteenth century, various geographic regions moved into particular structural roles, and then provisionally could be said to have become locked into these roles. Thus, for example, Poland developed into a peripheral area, specializing in the production and export of wheat and wood. Over a period of 200 years (1450-1650), land was consolidated under the aegis of aristocratic owners, and peasants were bound to this land by legislation (the so-called "second feudalism"). The indigenous commercial bourgeoisie was wiped out and replaced by merchants of foreign origin. Artisanry virtually disappeared. And the authority of the state steadily declined.

At the very same time, England developed in quite a different direction. Starting in 1450 as primarily an exporter of wool, with a state structure that had been bled by the Wars of the Roses, a commercial class still dominated by Italians and Hanseates, England was by 1650 part of the core of the European world-economy. Most of its agriculture and pasturage had been commercialized and divided between large and small landowners. Agricultural workers were wage-workers. Merchants were now only Englishmen. And England now forbade the export of wool, exporting instead the "new draperies." The strength of the state machinery had steadily increased. Even the English Civil War was less a challenge to the strengthened state than a quarrel over whose interests it should primarily serve.[14]

If we then look at the European world-economy, we notice that the division of labor had been made relatively (and of course transitorily) firm. As a result, such states as England and Poland (but of course not only these two) varied not only in the strength of their state machineries but in the range of economic roles located within them, the "nationality" of the tenants of these roles, and the degree of nation-orientedness of various groups.

Thus, classes may be said to have emerged as objective realities within the world-economy. That is, an analyst can certainly discern distinctive economic roles, which relate to the capitalist mode of production. Owners of land, bullion, and ships were in an entirely different relationship to the market than workers who had nothing to sell but their labor power (and who

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in the sixteenth century were for the most part constrained by law to sell their labor power extremely cheap, as slaves, or "serfs," or *encomendados*).

On the other hand, it is quite clear that *conscious* classes, that is groups seeking to legitimize their existence and secure political advantage, were only emerging in the core-states (England, United Provinces, and to some extent France). Furthermore, the only group in the core areas that was becoming conscious of itself as a class was the bourgeoisie *of these areas*. Their consciousness was a mode of challenging the inherited privileges of strata which were no longer a relevant economic corporate group but the social advantages of which were still encrusted and protected by law and custom, and which therefore remained a real social group but not a class (the "aristocracy").

These developments of sixteenth-century Europe were essentially repeated in the nineteenth- and twentieth-century world, with Africa developing along the lines that Poland had in the "long" sixteenth century. That is, over 200 years (say, 1750-1950), African areas were absorbed into the capitalist world-economy. Land was commercialized and concentrated (though for various reasons not on the scale of Poland). Various indigenous commercial classes were squeezed out or reduced in role to the benefit of non-indigenous merchant elements. The role of the state structures was reduced to zero ("colonization").

In the core regions during this same period (now Western Europe, including Germany, plus the United States), the internal diversity of economic roles grew steadily greater and the state machineries ever more total in their control. Because this period in the history of the capitalist world-economy was marked by the displacement of capitalist agriculture by manufacuring as the primary source of profits, the industrial proletariat as such became a significantly large group in the *core* countries of the world-economy.

Because also in the nineteenth century the core countries were virtually alone as manufacturing areas, this industrial proletariat was in a very weak bargaining position and hence suffered appalling conditions. Consequently, there developed a class consciousness of this proletariat directed at political struggle against a now politically entrenched bourgeoisie.

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In peripheral areas, such as Africa, developments were quite different. Class consciousness was not yet a relevant political tool. The indigenous capitalist landowners felt, rather like their confrères of sixteenth-century Poland, that their interests lay in the smooth flow of international trade to which any kind of struggle (either "nationalist" or "class") represented an interruption and a threat. The administrative bourgeoisie which emerged was at first too small to be politically significant.

With the further development of the world-economy, however, this latter group grew larger and in some areas (but for the most part not in Africa) a small indigenous manufacturing sector grew up. Thus in the twentieth century, we get the turmoil of revolt, but one primarily couched (certainly in Africa) in "nationalist" terms, since what the administrative bourgeoisie was seeking was to replace (partially) external elements playing roles they felt they could perform. (And when "nationalist" clothing would not work, "tribalist" clothing could be substituted.)

The agricultural workers in Africa have not been class conscious within the nation because, as they have correctly seen, the action relevant to them is not there A class conscious proletariat cannot emerge before in fact it represents a larger sector of the population. Meanwhile, the same "further development" of the world-economy in the twentieth century made possible the partial muting of the class conflict of the core countries by the absorption of skilled industrial workers into privileged sectors and by the increasing recruitment of sub-proletarian sectors from distinctive ethno-national groups.

This has been only the briefest of sketches of an extremely complex historical development. The object has been to suggest conceptual frameworks which would make possible a meaningful usage of class and class conflict in the analysis of contemporary Africa. The heart of our argument is based on the assumption that if one wishes to abstract some order out of the continuous flow of historical reality, it is important first of all to locate the "primary contradiction" of a given political situation at a given time.

We are arguing that, in general, in a capitalist world-econ-

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omy, the primary contradiction within *core* areas is to be located in the quarrel over the ambiguous and ambivalent role of the state structure, control of which is sought by different groups, both primarily located within its boundaries. This struggle, when it is sharp, is national in scope and "class conscious" in terminology. This is what comes within the usual image of "class analysis." In *peripheral* areas of the world-economy, however, the primary contradiction is not between two groups within a state each trying to gain control of that state structure, or to bend it. The primary contradiction is between the interests organized and located in the core countries and their local allies on the one hand, and the majority of the population on the other. In point of fact, then, an "anti-imperialist" nationalist struggle is a mode of expression of class interest. This is what Amilcar Cabral meant by using the term "nation-class."[15] That such an *expression* of the class struggle can also be a mode of muting it is of course the great danger, and this is the gist of Fanon's analysis.[16]

The reality of class is not lessened by the very real resistance to class analysis, nor by its rarity as a political phenomenon. If class conflict were indeed the major preoccupation of most actors in the world-economy at any given time, the world-system would not long survive in its present form. The strength of ethno-national consciousness is in fact one of the most cohesive factors in the existing world-system. But strength and weakness are relative, not absolute. And above all, strength and weakness are measurements eternally in flux.

NOTES

1. The most elaborate of these appeared rather late. It is Raymond Barbé, *Les classes sociales en Afrique noire* (Paris: Economie et Politique, 1964).
2. Typical examples may be found in the special issue on "African Elites" of the *International Social Science Bulletin,* VIII, 3, 1956.
3. See the writings of any major African leader circa 1960, from Léopold Sédar-Senghor to Sékou Touré to Tom Mboya to Julius Nyerere. See the discussion in Robin Cohen, "Class in Africa: Analytical Problems and Perspectives," *Socialist Register 1972* (London: Merlin Press, 1972), esp. pp. 231-234.
4. S. Ossowski made the best argument for this position in *Class Structure in the Social Consciousness* (London: Routledge and Kegan Paul,

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1963). He argues that the positions of the political leadership of both the United States and the USSR reflect this phenomenon. See chapter VII.

5. "Everyone" is of course an exaggeration. Here and there some scholars spoke of these phenomena. See, among others, Martin Kilson, "Nationalism and Social Classes in British West Africa," *Journal of Politics,* XX, 2, May 1958, 368-387; Richard Sklar, *Nigerian Political Parties* (Princeton: Princeton University Press, 1963). I myself in 1962 discussed the class links of West African political parties. See "Class Tribe and Party in West African Politics," *Transactions of the Fifth World Congress of Sociology,* Vol. III (International Sociological Assn., 1964), 203-216, later published in expanded form in S. M. Lipset and S. Rokkan, eds., *Party Systems and Voter Alignments* (New York: Free Press: 1967), 497-518.
6. For example, see one of Kwame Nkrumah's last books, *Class Struggle in Africa* (New York: International Publishers, 1970).
7. Samir Amin is one of the most prominent of these. He is an Egyptian, but more importantly he is the Director of the African Institute of Economic Development and Planning, located in Dakar.
8. See, for example, Bernard Magubane, "A Critical Look at Indices Used in the Study of Social Change in Colonial Africa," *Current Anthropology,* XII, 4-5, Oct.-Dec. 1971, 419-430; cf. Archie Mafeje, "The Ideology of Tribalism," *Journal of Modern African Studies,* IX, 2, Aug. 1971, 253-262.
9. Lorenz von Stein is probably the first to apply systematically the Roman concept "proletarian" to the modern industrial world. See *The History of the Social Movement in France, 1789-1850* (Totowa, New Jersey: Bedminster Press, 1964). Kaethe Mengelberg notes this in her Introduction. See pp. 20-21.
10. See my *The Modern World-System: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century* (New York and London: Seminar Press, 1973).
11. I have discussed why this should be so, in "Social Conflict in Post-Independence Black Africa: The Concepts of Race and Status-Group Reconsidered," in Ernest F. Campbell ed., *Racial Tensions and National Identity* (Nashville: Vanderbilt University Press, 1972), 207-226.
12. There is even a further distinction to be made about the pattern to be found in the semi-periphery. For a discussion of this problem, see my "Dependence in an Interdependent World: The Limited Possibilities of Transformation Within the Capitalist World-Economy," *Journal of Development Studies,* forthcoming.
13. See my "Two Forms of Ethnic Consciousness: Soviet Central Asia in Transition?" in Edward Allworth, ed., *The Nationality Question in Soviet Central Asia* (New York: Praeger, 1973), 168-175.
14. For some discussion of *why* Poland and England should have moved in opposite directions at this time, see my "Three Paths of National Development in the Sixteenth Century," *Studies in Comparative International Development,* VII, 2, Summer 1972, 95-101.
15. Amilcar Cabral, "The Weapon of Theory," in *Revolution in Guinea* (Monthly Review Press, 1968), 90-111.
16. Frantz Fanon, *The Wretched of the Earth* (New York: Grove Press, 1965), esp. 121-163.

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GREEN VERSUS RED REVOLUTION

BY PAUL M. SWEEZY

The following is the transcript of remarks at the *Pacem in Terris III* ("A National Convocation to Consider New Opportunities for United States Foreign Policy"), organized by the Center for the Study of Democratic Institutions and held in Washington, D.C., October 8-11, 1973. The proceedings are published in four volumes by the Center (Santa Barbara, California). This text appears in volume 3, pp. 70-72.

In looking over the participants in the program, not only this one but the whole conference, I observe that I am, along with David Horowitz, the exhibition radical.

I have felt, during the entire session, as though I were living in a dream world. Some of the facts, of course, are very interesting, and some of the indications of official establishment thinking are also interesting. But the perspective and the interpretation are, for the most part, simply ridiculous. I would like to read to you something that struck my eye the other day when I was thinking about this program. This is just a short paragraph from a review of two books in the *New York Times* Sunday Book Section, one called *From Aid to Recolonization* and the other *Politics of World Hunger*. The review is by James Sturber of whose politics and views I know nothing. He writes: "The world's poor majority is getting larger and poorer. Scanty efforts to do something about it have failed. The tiny minority of rich people on earth, those who live in America, Europe, the Soviet Union, and Japan, and who gobble up most of the plan-

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et's nutrition, knowledge, resources, and energy, couldn't care less. And in the years and decades to come, as a quest for ways to perpetuate their consumption, they will probably show just how much less."

I think that is the perspective we ought to use under our present arrangements. The world is not only split into rich and poor; it is also split—and this is causal and more basic—into exploiter and exploited. This is true both within the advanced countries and within the underdeveloped countries. By the way, you'll notice I don't use the term "developing" countries. That is a lie. Most of them are not developing at all. They are underdeveloping. They are slipping backward in basic respects. And the exploiters both in the developed countries and in the underdeveloping countries are natural allies. They work together; they preserve the system. They are responsible for its results.

Now Mr. Thompson talked about the green revolution. As far as Mexico is concerned, go there and look for yourself. See how great the green revolution is succeeding. What you will see is a miserable mass of people and a tiny minority who live in disgusting luxury. That's Mexico and the green revolution for you. Look at India, also a beneficiary of the green revolution. It's in a crisis which is not going to get any better. Almost everybody agrees to that.

Mr. Thompson talked about the green revolution possibly leading to a red revolution. Well, is that such a bad thing? Look at India and look at China. After about the same period of time since overthrowing their old regimes, the British colonial regime in the case of India and the old Chiang Kai-shek regime in the case of China, where do they stand today? India, as I say, is in crisis, threatened with famine, no way out. China, even after three years of extremely bad weather, has succeeded in feeding everybody quite satisfactorily, and I dare say there is less malnutrition and starvation in China today than there is in the United States. You don't see it much in the United States, but plenty of congressional and other hearings have brought out in the last couple of years that it exists, and it exists on a nationwide scale. I do not believe it exists in China.

If you are looking at the world from the point of view of the future, which is what we were asked to do, and from the

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point of view of the vast majority of the people who live in the world, I ask you which is the more promising road? The green revolution, as exemplified by Mexico and India, or the red revolution, as exemplified by China? I think a rational person can have only one answer.

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BOOKS

SOCIAL MOBILITY IN THE U.S. WORKING CLASS

By Edward Greer

The Other Bostonians: Poverty and Progress in the American Metropolis, 1880-1970 by Stephan Thernstrom. Cambridge: Harvard University Press, 1973; $12.

A decade ago, Stephan Thernstrom's first book, *Poverty and Progress: Social Mobility in a Nineteenth-Century City* was rather well received on the Left, largely I suspect because it dealt with the conditions of life of working-class Americans. It was well received in the historical profession as well, largely because, by utilizing some ingenious research techniques, Thernstrom was able to demonstrate that the amount of geographical mobility in the later nineteenth century among American workers was remarkably high.

The Other Bostonians attempts to provide another path-breaking study, this time of the contours of social mobility in the American working class. But this larger effort fails, mainly because the methods of inquiry which are suitable for determining changes of location do not suffice to determine changes of social class. Thernstrom does not treat this problem as qualitatively different, and this methodological conflation is part of a larger ideological difficulty with his work. Despite a surface similarity of topic with that of Marxist social historians, Thernstrom's enterprise is centrally situated in the mainstream of moderate liberalism, specifically within the tendency of right-wing social democracy.

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His meteoric rise to full professor of history at Harvard University is one indicator that his perspectives do not offend the vital center of American scholarship. A further indication may be seen in Thernstrom's success as an academic entrepreneur; no fewer than seven different groups provided the funding for the book under review, production of which by a single scholar would have been virtually impossible. (Thirty years ago C. Wright Mills acerbically pointed out that the "research in the social sciences is increasingly dependent upon funds from foundations, and foundations are notably averse to scholars who develop unpopular theses, that is, those placed in the category of 'unconstructive.' ")

In *The Other Bostonians* seven research assistants accumulated the data; two computer programmers processed it; six research assistants—five of whom were women—whose participation merits only a listing of their names in the "Acknowledgements" made some otherwise unspecified contribution; and "two helpful collaborators" apparently participated in shaping the ideas of individual chapters. In the end notes, the works of Harvard professors are uniformly praised as "fascinating," etc. (even Edward Banfield's fatuous *The Unheavenly City* is, despite some criticism, praised for "its brilliant insights into specific urban policy issues"); while non-colleagues are generally treated rather poorly, and Thernstrom seems to have carried the University of Chicago Press *Manual of Style*'s advice to cite other books of one's own publishing house beyond mere courtesy: almost a sixth of all the books referred to are published by the Harvard University Press.

Thernstrom's main conclusion is that since the Civil War the American class structure has been relatively open and fluid. On balance, he finds, our society does provide careers open to talent. He admits that prior to the Second World War such opportunity was denied to blacks. (This position represents an advance for Thernstrom. In his earlier work he declared himself an agnostic on the question of whether blacks were treated qualitatively worse in the job market than the various white immigrant groups.) Since that time, however, "major advances" have occurred. Despite repeated readings, I cannot say whether Thernstrom thinks that blacks are currently still subject to discrimination far more severe than that experienced by other groups. On this matter Thernstrom's locutions are surprisingly ambiguous.

As far as his central theme of social mobility is concerned, Thernstrom asserts—without ever explaining why—that its likelihood is "crucial" to an understanding of the system of social

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stratification. Apparently he does not question the bourgeois notion that a high degree of such stratification is inherent in industrial civilizations. We are informed that in America the degree of social mobility lies somewhere between the amount technically necessary to meet labor force needs and the amount which would occur under conditions of random selection—hardly a startling insight.

In particular, we are informed that about a quarter of those who commenced their working lives as blue-collar workers ended up with white-collar jobs. Thernstrom interprets this kind of mobility as demonstrating the relative fluidity of the American class structure. But even within his own definition of class, some skepticism is in order. It is difficult for me to perceive how a day laborer who ends his days as a messenger or night watchman can fairly be classified—as Thernstrom does—as having experienced upward social mobility. I would think that the reality in such cases is the reverse.

Fundamentally, Thernstrom is able to reach his conclusion that there is substantial class mobility in America by arguing in effect that the outer limit of the working class is defined by blue-collar occupations. However, his contention that a white-collar job puts one in the middle class is hardly the sort of neutral technical definition of the kind involved in his earlier work on residential mobility. Thernstrom recognizes the difference, at least implicitly, by devoting a technical appendix to a justification of his system of classification.

The definition Thernstrom uses for class is highly ideological (in Marx's original sense of that term as reflecting the false consciousness of privileged social classes); in fact it is the definition of American bourgeois academic sociology. Conversely, Marxists include such white-collar occupations as mail carrier, bank teller, messenger, dietician, draftsman, and technician within the ranks of the working class. Indeed, the academic sociological notion that the great class divide is between blue- and white-collar workers was developed historically as a refutation of the Marxist concept. And this sociological definition has far less empirical validation—even leaving aside the underlying structural relationship to the means of production—than its more ardent defenders imagine. When one looks to such matters as life-style, marriage patterns, income, political ideology, etc., the evidence is persuasive that the contemporary American working class includes most lower-tier white-collar job-holders. (This evidence is ably summarized by Richard Hamilton in *Class and Politics in the United States.*)

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If—instead of following the bourgeois tradition—one places the real class dividing line in the United States between lower white-collar workers and the upper middle class, very different conclusions emerge from Thernstrom's own evidence. Except for those on the margin of this class divide, the rate of upward social mobility for male workers (measured either within or between generations) is rather low: well below ten percent. On the other hand, those with substantial wealth or high-level jobs are very likely to be able to pass their class position on to their sons. Only at one point, and in passing, does Thernstrom observe that "there was a ledge at the lower white-collar level above which workers rarely rose and below which men from the upper middle class rarely fell."

The basic weakness in Thernstrom's treatment of this matter is that he nowhere attempts to defend his typology against such objections, so that we never know if he is able to adduce good reasons for preferring the approach he has adopted to that of Marxism. This refusal even to enter into dialogue with the Left is consistently maintained throughout the book. Although *The Other Bostonians* is about the American working class, no one would ever guess from reading it that there is a radical tradition which deals with such matters as labor history or social theory. Never once in the entire book (in striking contrast to his fulsomeness toward liberal academia) is there a single citation of any radical or Marxist. It is hardly credible that Thernstrom is unaware of the existence of Marxism, even in the insulated world of Harvard University, and so it is impossible to avoid the conclusion that the omission represents a deliberate policy. For my part, I believe that the time has come for us to insist that such scholarship is unconscionable; that it represents an effort to continue to ghettoize and stigmatize radical ideas appropriate to Cold Warriors but not to honest thinkers. If Thernstrom believes that the Left is intellectually bankrupt let him say so and give his reasons. That would be a legitimate position. But to take advantage of the discrimination against the Left to ignore it—and thus help to perpetuate that *ad hominem* discrimination—is shameful.

I have made this point at length because I have found a tendency among many young radical academics to try to make their case against the mainstream without relying upon "radical sources." In so doing, they damage our collective enterprise of developing a revolutionary counter-hegemonic culture and politics in this

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country. Such an approach often reflects opportunism and careerism, and should be subject to public political censure.

Thernstrom's discussion of race is even more misleading than his discussion of class. He begins with an excellent presentation (following DuBois) of how at the turn of the century, notwithstanding superior educational attainment, Boston's blacks were already behind the city's Irish immigrants in occupational position. While other ethnic groups kept on improving their lot, blacks remained overwhelmingly concentrated in menial blue-collar jobs until the onset of the Second World War. After that, however, he claims that "a breakthrough occurred."

Now Thernstrom is correct in pointing out that after 1940 the number of black operatives doubled, while the proportion of service workers dropped way off—so that currently blacks have doubled their proportional share of industrial proletarians. And the black share of skilled craft jobs has reached relative parity with the white share. But this statistical parity is largely illusory, as evidenced by the fact that the pay of black craftsmen averages only 75 percent of that of their white counterparts. And with respect to the situation of black professionals, Thernstrom is forced to conclude (despite his contention that discrimination is not operative in this sphere of American life!) that the picture is mixed.

His most impressive "evidence" of black occupational advance in the period since the Second World War is the massive gain in clerical jobs. But it is important to understand that this advance is far less significant than a casual reader of the book might think, for the advance includes women's jobs too, which substantially improves the overall profile. Nowhere else in the entire book are women's jobs aggregated together with men's and the fact that this aggregation has taken place requires a close reading of the footnotes. Of course Thernstrom simply assumes that white-collar jobs are superior to blue-collar ones, which is hardly self-evident.

Without any evidence to support it, Thernstrom asserts that the advance of blacks into clerical ranks is due "to a shift in employers' attitudes about the appropriateness of allowing Negroes in positions at that level." (In reality, as Baran and Sweezy pointed out in *Monopoly Capital,* the core of the hiring of blacks in the clerical sector has been carried out by the government.) In this formulation of social causation the political struggles by blacks and their allies, reflected in civil rights legislation, is exogenous and drops out of sight. And Thernstrom's explanation omits the

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fact that white suburbanization has in recent years required major central city employers to dip into a new labor pool. A prime example of this transition is the blackening of the pool of metropolitan telephone operators in recent years. And as Michael Tanzer and I pointed out in a paper on this question,* the change has nothing to do with a new psychology among AT&T's corporate elite.

Regardless of all these weaknesses, *The Other Bostonians* has been awarded the Bancroft Prize, the top encomium for a work in American history. Perhaps this represents an infatuation with the methodology of the "new urban history" which stresses the use of retrospective survey data. If so, this would be just as troubling as outright political bias. For although one must welcome any method which aids in determining what happened in the past (and computer summaries of masses of raw data can contribute in some small way to this objective), it is clear that the introjection of sociological and "empirical" political science techniques into historical narrative is generally not an addition but a subtraction. This is because spurious mathematical relations are substituted for real social ones along lines Herbert Marcuse warned against in *One-Dimensional Man.*

What is most curious about Thernstrom's book is that it is not history at all, but simply various "information bits" of differing degrees of use in constructing a genuine history. Some of this information is of real worth: for instance, Thernstrom demonstrates that despite the ethnic patronage machine linked to Irish control of Boston's City Hall, the Irish as a group did not make general economic progress and indeed lagged behind other ethnic groups in the city in similar circumstances. This suggests that *a fortiori* in current circumstances, urban "black power" will be unable substantially to ameliorate the conditions of the black masses. (Significantly, Thernstrom does not make this deduction in his book, although he did so in a 1968 article in *Partisan Review.* One wonders if he feels that what distinguishes scholarly work is a deliberate avoidance of political relevancy.)

Another valuable result is Thernstrom's demonstration that the Depression permanently blighted the lives of young men in the industrial working class and undercut the career prospects of the lower strata among white-collar employees. But skilled craftsmen were little affected and "young men at the top of the occupational

* Mimeographed copies are available by writing to me at Hampshire College, Amherst, Mass. 01002.

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structure in 1930 weathered the depression quite well." Such information would surely be helpful to someone attempting a history of the New Deal (throwing light, for example, on the conservative posture of the AFL), and seeking to understand its most recent residue in the "New Deal coalition" of the Democratic Party.

Indeed, the book abounds with such uninterpreted information. But beyond a handful of banalities, one would look in vain for any explanation of events or changes in class structure or in the content of particular types of work. No one would ever guess from reading Thernstrom that history is about the struggles of the masses of humanity to live decent lives under circumstances not of their own choosing. This is not a study by a man who has tempered his passion to better portray these efforts and how they succeed or fail. It is a work utterly alienated from its subject matter, and subordinate to the dictates and values of the American ruling class.

The Other Bostonians is a warning to us that the limits of criticism of American society from within are quite narrow; and that attempts to stay within these limits by using its legitimated categories of intellectual discourse are bound to prove unworkable or worse.

A NEW CRITIQUE OF MARX'S ECONOMICS

By William J. Baumol

Marx's Economics: A Dual Theory of Value and Growth by Michio Morishima. Cambridge, Mass.: Cambridge University Press, 1973, vii + 198 pp., $11.95.

Professor Morishima is a member of the faculty of the London School of Economics and a very noted mathematical economist. His book investigates what Marxian theory and contemporary mathematical economics can do for one another. His primary objective is neither to praise nor to criticize Marx, though he does do both of these. Rather, he feels that a dispassionate union of the two strands of thought can contribute materially to each of them.

William Baumol is a professor of economics at Princeton and New York University.

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Marxian analysis can profit from the analytic techniques which have been constructed during the century since *Capital* was written and from the mathematical methods which Marx himself was not trained to use. Western mathematical economics, on the other hand, can be helped to rescue itself from the sterility of empty formalism and mathematical manipulation for its own sake, which is a danger that constantly threatens that line of analysis.

Morishima's book will not be easy reading for those who are unfamiliar with such constructs as Leontief matrices and Von Neumann growth models, and who do not have at their disposal such tools as linear algebra and simultaneous difference equations. The author asserts that the book "is not difficult mathematically," but the statement, which is true enough for specialists, is misleading for the general reader. Yet enough of its very stimulating discussion is accessible and non-technical to make a foray into the volume very much worth while even to those not trained in mathematical economics. It should be noted that the notation and manipulation are never introduced for their own sake but only where the result is to permit proof, generalization, extension, or the introduction of substantive new ideas. It should be noted also that while Morishima makes no pretense at being a Marxian scholar, he has clearly studied *Capital* with meticulous care so that the ideas he discusses are really attributable to Marx, not to the imagination of some later commentator.

Aside from other sources of prejudice, modern academic economists have prevented themselves from benefiting from the ideas of earlier writers such as Marx and Ricardo by the belief that their pathbreaking works were relatively crude and primitive in their methods and largely superseded in their ideas. But, curiously, some of the most sophisticated of contemporary writers—Von Neumann, Leontief, Samuelson, and many others—have made heavy use of many of the simplifications of their predecessors and have replicated many of their results. Yet these very simplifications, which when used as part of a mathematical treatment are hailed as the apogee of innovativeness and effective theorizing, are considered evidence that the earlier writers have long been outmoded. For example, many of the value models in Ricardo and Marx assume away increasing or diminishing returns to labor or physical capital, assuming instead that the input-output ratios are fixed. Moreover, their discussions sometimes find it useful to reason as though there were only a single homogeneous input, labor, though these authors were perfectly aware that this was a matter of analytical convenience. But the same motive has forced a host of con-

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temporary writers to resort to exactly the same premises. Morishima, himself being a master of mathematical techniques in economics, is able to discern these similarities and to evaluate them appropriately.

Morishima starts off with a formalization of the Marxian value analysis, showing how in a complex economy with many interdependent activities, values can be calculated from the combined technological information for all the activities. This is a useful if not an entirely original exercise, because where every product utilizes in its manufacture a variety of other products it is not entirely obvious how the congealed labor content of the final good can be determined from that of its components. In fact, Morishima proves that there are two equivalent ways of calculating the final labor value of an item: the first involves, in effect, the laborious tracing back of the labor actually going into the good in question at every stage of its production, while the second approach aggregates the direct expenditure of labor in the good's final stage of manufacture with the *values* of the other non-labor inputs used at this stage. This process must unavoidably take the form of the solution of a set of simultaneous mathematical relationships, for in this calculation the final value figure computed for each good depends on the final value for the other goods that are used in its production. Hence no one of these values can be calculated before the others—they are mutually interdependent.

Morishima goes on to examine the relationship of profits and surplus value and of prices and values. He recognizes from the first that "the aim of Marx was not to establish the proportionality of prices and values in a capitalist economy, but, on the contrary, to explain why they may differ from each other when the workers cease to possess the means of production." (p. 39) Rather, Marx's central purpose was to show "how 'the aggregate exploitation of labor on the part of the total social capital' is, in a capitalist economy, obscured by the distortion of prices from values . . . [and that] living labor [is] the sole source of profit." (p. 86) Accordingly, Morishima undertakes to offer a proof of "the necessity of aggregate exploitation of labor by capitalists for the existence of a positive profit." The argument involves some extended calculations in terms of the values which are used to measure Marxian exploitation and the pecuniary profit magnitudes.

This brings Morishima to the Marxian reproduction models which he, along with most mathematical economists, considers one of Marx's most profound contributions, and perhaps the one that is most pertinent to contemporary economics. Indeed, the author

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begins his book by asserting that "the general equilibrium theory was formulated independently and simultaneously by Walras and Marx." (p. 1) In a sense this statement is misleading. The Walrasian general equilibrium model, which is at the heart of so much of today's academic economic theory, is an ingenious formalization of the interdependence of the many sectors of the economy. The Walrasian model sought to exclude as few as possible of these interdependence phenomena and to show in a formal way how their interaction could lead to determinate values for all of the variables in the system. But the very success of the general equilibrium model, in its attempt to exclude as few as possible of the complexities of the economy, exacted a heavy price, reducing much of its discussion to formalistic sterility. It is only somewhat of an exaggeration to say that for a long time economists could deduce nothing from these models except their internal consistency (and for a time they did not succeed in doing even that).

To Marx interdependence was also important, and this is reflected in his delight with Quesnay's approach, which served as a stimulus to his ideas in this area. But Marx's purposes did not permit him the luxury of purely formal models which were ill suited to further analysis. Rather, he hit on a fortunate device, which nearly a century later was rediscovered for himself by J. R. Hicks—a device which permits the analyst to have it both ways. The device is a highly aggregated general equilibrium model in which the economy is divided up into a small number of composite sectors. This model offers all the advantages of recognition of interdependence, and avoids the fallacies into which one can be entrapped by studying some one industry in isolation, without considering from where it draws its resources. Yet it is sufficiently compact to enable the analyst to understand its properties and to determine their implications for reality. This is one of the profound contributions of the models of simple and expanded reproduction.

In dealing with the latter, Morishima goes well beyond Marx's fragmentary discussion and constructs a dynamic model of the workings of the economy in which the developments of each period are determined by those of the preceding periods. Following Marx, the model is composed of two sectors, one producing capital goods and the other producing wage and luxury goods, each sector having its own uniform organic composition. Growth is determined by the net increase in the stock of capital goods which represents capitalistic accumulation. The issue left unresolved in *Capital* is just how the rate of accumulation is to be determined. Morishima solves this by adopting the assumption that capitalists in both sectors

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accumulate a fixed proportion of their money profits (measured in money, not value, terms). Given the previous period's profits, that determines residually the total demand for luxury goods. Similarly, the demand for wage goods is given by the previous period's wages, none of which are accumulated by workers. Since the capitalist production mechanism will produce all the commodities for which there is an effective demand, this determines the outputs of the consumer goods sector. The demand for, and hence the output of, capital goods is then fixed by the amounts of capital necessary to produce those quantities of consumer goods. That is all there is to the model which has determined each period's activities in terms of its predecessor's. Such a construct, which is describable mathematically as a set of simultaneous linear difference equations, has the convenient property that the qualitative behavior of the time path of its variables is determinable from the parameters of the system—the technical coefficients representing the input requirements of the productive process, and the accumulation rates of the capitalists. Specifically, we can tell from these whether the system will be usable, converging toward a steady-state equilibrium; or whether its properties make for instability and even greater departure from a state of "normalcy." In the Morishima model of expanded reproduction it can be shown that the system is unstable. With appropriate relative organic compositions in the two departments their output ratio will oscillate, and because of the instability property it follows mathematically that these oscillations must grow larger and larger; that is, the ratio of demand for capital goods relative to that for consumer goods will first rise, then fall, then rise again, the swings growing constantly greater. Morishima takes this to mean that "we have alternate attractions and repulsions of workers by capital, which become greater and greater in their extent with the progress of time." (p. 136) These amount to growing contractions and expansions in the industrial reserve army, which constitute the mechanism of the breakdown of the capitalist economy. He argues that the model does not necessarily call for such a breakdown (providing a counter-example in which outputs, the rate of profit, and the demand for labor all increase through time). However, the analysis does show, in Morishima's view, how such a breakdown can be produced.

Morishima suggests that some of Marx's most profound insights, from the point of view of contemporary theory, are to be found in Volume II in the discussion of the role of unfinished goods and durable capital equipment in the production process. He concludes that Marx was only one step from the formulation

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which Von Neumann utilized to create his revolution in the analysis of economic growth. A critical problem posed for such an analysis lies in the fact that a piece of durable equipment is normally used up only partially in any one year. This makes it more difficult to analyze the consequences for the value of that year's output. Had the equipment been used up entirely, one could have concluded that its *entire* value enters that of the final product. However, with a durable good the portion of its value to be ascribed to any one year's output seems almost arbitrary. To solve this problem, Von Neumann uses an artificial device *which Marx himself had employed in the analysis of goods in process.* Suppose a machine that is two years old is used to produce commodity x. Then Von Neumann describes the process as using up the two-year-old machine *completely* and turning out not one product but two: both good x *and* (*as a by-product*) *a three-year-old machine*, which is an item quite distinct from the younger piece of equipment with which the producer began. This simple device, which seems like little more than semantics, in fact permits the description of the process by means of a set of well-defined mathematical relationships. These relationships must take the form of simultaneous inequalities (as in Von Neumann's work) not a set of equations (as in Marx and Walras). This is so because a productive process using three-year-old machines is likely to be different from one using two-year-old machines (which may, for example, be more efficient and need less maintenance). Each such productive process for each commodity needs one mathematical relationship to describe it. Thus if equipment lasts h years, and is used in making n commodities, the number of relevant relationships will be n multiplied by h. However, there will be only $n+h$ values to be determined: that of each of the n commodities, and that of the equipment in each age group. Since, in general, it is impossible to pick the values of $n+h$ variables so as to satisfy nxh simultaneous equations, some of such a number of equations cannot be satisfied, i.e., those will turn out to be inequalities. With these modifications, Morishima arrives at what he calls the Marx-Von Neumann model, which he feels at this point to be the most promising analytic instrument for academic and Marxian economists alike. For it can deal with important economic problems of reality such as those called to our attention by Marx, while offering us the analytic power of mathematical methods of reasoning.

I have tried to illustrate the sorts of ideas which Morishima provides and the sorts of reasoning that underlie them. Obviously this discussion can deal only with a sample of these contributions,

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but perhaps they will give the reader some feeling for the flavor of the analysis, and some indication of how much he or she will learn from a careful reading of the book.

One last topic needs to be considered—Morishima's evaluation of Marx. Morishima emphasizes from the beginning his desire to avoid the partisanship and preconceptions of Marxist and anti-Marxist economists alike. He consequently seeks to base his judgments on a close reading of Marx and his broad knowledge of the subsequent literature. He reaches conclusions which give Marx credit for accomplishments and foresight which academic economists do not usually credit to him. On the other hand, he ends up with reservations about the analysis which Marxists will not readily accept.

Morishima's reading leads him to what I believe to be the correct interpretation of the Marxian value theory and its relation to capitalist pricing and distribution as described by the transformation analysis. This is an issue on which, in my view, few other academic economists have understood Marx's intentions.* He recognizes that Marx never intended his values to represent the outcome of the capitalistic pricing process, and that Marx knew and emphasized that there was a difference between the two that was systematic and perhaps often substantial. The purpose of the analysis was not to provide an alternative explanation of prices, profits, interest, and rent which he knew could be explained well enough by the classical economists without Marxian value theory. Rather, his purpose was to show that capitalist prices, etc., were a mere surface manifestation which concealed the important underlying fact—that, interpreted as a social phenomenon, exploitation of labor in the form of surplus value is (virtually by definition) the sole source of profit, interest, and rent.

Having given Marx credit for this, Morishima goes on to ascribe to him, as has already been noted, the independent discovery of general equilibrium analysis, and the near discovery of the Von Neumann model of an expanding economy.

In my opinion, Morishima's views on these two subjects go too far, and read into Marx things that Marx neither envisioned nor intended. In his reproduction scheme Marx does not seem to me to have been concerned with interdependence phenomena as a subject of interest in themselves. Nor was he particularly inter-

* A noteworthy exception is Thomas Sowell. See his "Marx's *Capital* After One Hundred Years," *Canadian Journal of Economics and Political Science* (February 1967), pp. 50-74.

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ested in the algebraic forms of the relationships. But both of these are crucial elements for Walrasian theory that make it what it is.

In the same way, while there is some overlap between Marx and Von Neumann in choice of area of analysis and in certain parts of their formulations, there is a great deal more to the pertinent work of both authors than is contained in this narrow area of overlap. Certainly, Marx the political economist could not have envisaged the contributions of Von Neumann the mathematician to duality theory, mathematical programming, existence theory, and game theory, all of which are to be found explicitly or implicitly in his writing on economic growth.

Morishima seeks to balance the ledger by concluding at the end of the book that, despite the insights it offers, value theory suffers from a number of deficiencies sufficiently serious to call for consideration by Marxists of a Marxian economics without the labor theory of value. (p. 181) He argues that a true labor theory of value must be independent of the bourgeois pricing process, that it must assign a unique (non-negative) value to every output, and that these conditions cannot always be satisfied if labor is non-homogeneous, if there are several alternative ways of producing a given output, or if some products, like beef and hides, are produced jointly. For example, where labor is heterogeneous, say where one type of labor is twice as efficient as another, Marx tells us that every hour of labor of the former type must be considered equivalent to two hours of the latter. But then, asks Morishima, are we not reducing the different sorts of labor to "the homogeneous abstract human labor in proportion to their wage rates," i.e., are not values made dependent on the bourgeois pricing of labor? It seems to me that Marx's answer to these comments might have been similar in spirit to his answer to Dühring. Values were intended, in Sowell's words, to "study the relationship among men, rather than the relations among things [so that] the Marxian capitalist was left in a *personally* functionless role similar to that of the Ricardian landlord who grew richer in his sleep." (p. 71) To achieve this qualitative purpose, it did not matter that they do not correspond to the quantities observed on the market place; and other particular quantitative limitations of the concept might have been of little more concern to him.

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(*Continued from inside front cover*)
far-reaching changes that have characterized banking practices in the last decade of inflation and international monetary upheaval. We have tried to deal with these matters as simply and clearly as possible, with no more than an unavoidable minimum amount of statistical data. If you still have difficulties or questions after you have studied the article, please write us. If responses to this invitation indicate a need for further clarification, we will attempt to supply it in a later issue.

MR readers will be interested to know that the American Economic Association, at its annual meeting in San Francisco during the Christmas-New Year's week, passed a resolution introduced by two URPE members establishing a standing Committee against Political Discrimination. Two current cases figured prominently in the discussion leading up to the adoption of the resolution: (1) The refusal of tenure to a number of radical economics teachers at San Jose State University (California) despite positive recommendations from their department. This was followed by action by the university administration disenfranchising the department itself while imposing on it a chairman it had specifically voted to reject. The struggle continues in several forms (including legal actions), and the outcome is still uncertain. (2) The firing (for the third time, protests having forced the rescinding of the other two) of David Barkin from the economics department at Lehman College of the City University of New York (this struggle is also continuing). The new AEA Committee against Political Discrimination is empowered to investigate these cases as well as any others that may be brought to its attention and in effect to take whatever action it deems appropriate. How effective this arrangement turns out to be will of course depend in large part on the vigor with which the opponents of political discrimination act to bring cases to the committee's notice and put pressure on it to follow through. Meanwhile, members of other professional associations might consider the desirability of establishing machinery similar to that of the AEA.

When we were in Greece on the way back from China in late October, we concluded an agreement with some young Greek comrades to publish a Greek-language edition of MR (the terms of the agreement are similar to those governing the Italian edition). To our surprise and gratification we have now received the first issue, published on January 10th. An accompanying note, dated January 12th, says: "Will send details on circulation and reactions later. Already we have sold nearly 1,000." We will give further information, including subscription price and the Athens address, in this space next month.

Barry Rubin, author of the review of Al Richmond's *A Long View from the Left* in the January issue of MR, asks us to make a correction: he is no longer connected with the Middle East Research and Information Project (MERIP).

Two announcements of possible interest to MR readers: (1) The Mid-Atlantic Radical Historians' Organization (MARHO) will hold its third annual winter conference in New York on March 22-23. For detailed information write Michael Merrill, 601 West 113th Street #7D, New York, N.Y. 10025. (2) The Northeastern Anthropological Association will hold a conference on "Modes of Production: Marxist Studies in Anthropology" at the State University of New York Potsdam campus on April 17-19. Further information from Fred York, Department of Anthropology, SUNY-Binghamton, Binghamton, N.Y. 13901.

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February Books from Monthly Review Press

THE UNITED STATES AND CHILE:
Imperialism and the Overthrow of the Allende Government
by James Petras and Morris Morley

"This book is a powerful corrective to those journalistic accounts . . . that minimize the role of the United States in the dramatic events that took place in Chile. More than that, the [authors'] allegations are supported by official statistics on investments by imperialist firms, and by transcripts of official declarations by U.S. government officials, some of whom planned, and others of whom put into action, the events that culminated in Allende's assassination."—**Tiempo** (Mexico City). Petras and Morley's thesis rests upon an analysis of U.S. involvement in Chile before and after the Allende period. They show how through embargo, debt, and other forms of economic blockade and pressure, U.S. imperialism carried out a campaign that made it impossible for Allende to govern.

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NOTES ON THE PUERTO RICAN REVOLUTION:
An Essay on American Dominance and Caribbean Resistance
by Gordon Lewis

This long analytical essay asks and seeks to answer three questions: What is the nature of Puerto Rican society after a decade of dramatic and traumatic change? What should be the strategy of freedom to be followed by the new Marxist-Leninist oriented forces? What can be, and what ought to be, the nature of the new Puerto Rican society once released from American rule? Lewis dissects the deepening crisis in the American capitalist-imperialist society and how it inevitably affects Puerto Rico. He also analyzes the emergence of new, militant forces within the colonial regime, forces at once nationalist and socialist that have changed completely and irreversibly the character of the metropole-colony confrontation.

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